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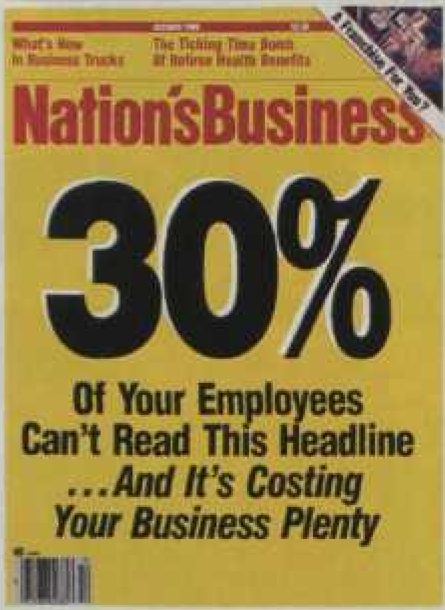
PHOTO: LEIF SKOOGFORS

COMMENTARY

Letters



Read On

As business liaison for the VIA/Literacy program at the Lawrence Adult Center in Springfield, Ill., I salute your October cover story, "Can Your Workers Read?" By pointing out the many positive and creative responses that companies are making to the need to upgrade job-related basic skills, you not only raise awareness of the issue but encourage other businesses to do likewise.

My experience in working with local businesses affirms many of your findings. Employers often first see the results of poor basic skills in errors, absenteeism and low productivity before pinpointing the problem. When employees are given the opportunity to upgrade their skills with employer support, the fear of losing their jobs is removed, and they are more willing to come forward for help. Company support, from both the CEO and the human-resources development manager, is essential for setting up a successful training program.

Ann Belletire
Springfield, Ill.

Karen Berney states [in the October cover story] that "about 30 percent of adults—about 1 of 3 potential employees—can't read, write or reason well enough to compete in today's economy." Your cover headline states, "30% Of Your Employees Can't Read This Headline . . . And It's Costing You Plenty." The literacy issue is not word-coding skills, which are taught in the early grades. It is the lack of reasoning and application abilities at higher levels of functioning, as the article states.

Apparently the headline writers can't reason effectively enough to distinguish between "reasoning well enough to compete in today's economy" and reading the headline sentence. I don't want a serious issue glossed over, but scare tactics such as your cover headline do not lead to solid solutions.

Ann Trinkle
Principal
Avery Elementary School
Bellevue, Neb.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Reckoning With Mandated Leave

In her letter "Against Mandated Benefits" [October], Carol J. Sappington says that her company would feel "financial strain" if it were to provide government-mandated extended leave to its employees.

How much strain would her company feel should some of those same employees be injured on the job or in an automobile accident and be forced to miss several weeks or months of work? Would Ms. Sappington fire them? Or does she, like most sensible executives, have contingency plans in place should such unfortunate events come to pass?

Mandated leave is just another business condition to be reckoned with, not unlike vacation, illness, accidents, labor shortages or interest rates. Intelligent executives take all these things into account in their business plans. How typical of management to blame the cost of employees' benefits for their problems instead of finding more productive procedures and better products—in other words, using their brains to find ways to compete more profitably.

Chuck Larrieu
Corte Madera, Calif.

"Harmanizing" Substance Abuse

I read your article about Sidney Harman in the October issue of *Nation's Business* ["Jumpin' With Symphony Sid"]. Of particular interest was your remark on page 95 in which you discuss the reduction of drug use and alcoholism apparently due to a change in com-

pany personnel policy. Since I view substance abuse as an addictive disease, requiring multifaceted long-term care, I would appreciate receiving information that could shed some light on how an obviously significant substance-abuse reduction was measured.
Dr. Harvey Birnbaum
Brooklyn Center for Psychotherapy
Brooklyn, N.Y.

[Editor's Note: The article said that after a cooperative system evolved at the plant, "problems of drug use and alcoholism dwindled." Sidney Harman explains that significant social consequences developed from the changes in plant policy, which reduced frustrations for employees. Some changes were quantifiable, such as the numbers of people who became involved in educational programs. Other changes, such as the decline in drug and alcohol abuse, were observations based on his sense of the workers at the plant.]

Control The Budget Deficit

I found Albert G. Holzinger's article "Bush, Dukakis and Business" [October] to be very informative.

As a business student, I am interested in what Bush and Dukakis have to say about business. Both talk about bringing down and keeping down the [federal budget] deficit. This is not likely to happen. Instead of promising something they can't deliver, they should just work on getting the deficit under control and not let it grow any further. This is a major concern of our nation, and something needs to be done about it.
Anthony M. Franchimone
San Diego

Business Plans In Panama

Your article "The Myth of the Business Plan" [August] was excellent, and I thank you for your permission to include it in a Spanish-language brochure that will be distributed to entrepreneurs and would-be entrepreneurs in my country.

I am in the design field, have provided services to many entrepreneurs and companies and have read extensively on entrepreneurship. This is the best article on that subject that I have ever seen.
Bolivar Rivera P.
Panama City
Panama

Nation's Business

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Small-Business Update

By Donald C. Bacon

Pressing Uncle Sam To Pay Up On Time

If the federal government owes you money, rest easy. The check will soon be in the mail.

At least that's the promise of some tough new amendments to the 1982 prompt-payment law. The changes take effect April 1. Pushed vigorously by the small-business community, the amendments will require the bureaucracy to do better in settling its debts on time.

One study found that agencies, despite the 1982 law, still pay nearly one fourth of their bills after the due date, and that they often fail to add legally required interest when their payments are late.

"These practices particularly damage small businesses, which typically do not have large capital bases and, therefore, depend heavily on cash flow," said Raymond S. Wittig, a Washington attorney and member of the U.S. Chamber of Commerce's Council on Small Business.

The changes will bar agencies from the practice of fudging a shipment's arrival date as a way to stretch the usual 30-day period for payment.

Other delay tactics, such as shuttling invoices from office to office, also will be prohibited. Prime contractors will be required to pay subcontractors within seven days of receiving their own payment from the government.

PHOTO: T. MICHAEL KEZA

Federal agencies' late-payment practices "particularly damage small businesses," says Washington attorney Raymond S. Wittig.

Help For The Unemployed To Become Entrepreneurs

Sometimes the loss of a job prompts a person to consider starting his or her own business. But that entrepreneurial spirit can be dampened by government policy on payment of unemployment compensation.

To qualify for benefits, a person must be actively seeking a new job. An unemployed person who drops out of the job market to concentrate on planning a business loses eligibility for jobless benefits.

An experimental new program could change all that. A federal test begun this fall will see what happens when a select number of idle workers are allowed to use their unemployment benefits as seed capital for their own businesses. Participating states—Oregon, Massachusetts and Minnesota—also will provide the 1,000 to 2,000 enrollees with additional help through other programs.

Rep. Ron Wyden (D-Ore.), who sponsored the legislation, foresees a host of new enterprises springing up, providing work for the unemployed and creating new jobs for others. For instance, he envisions displaced loggers starting tree-trimming businesses and laid-off auto workers opening shops for customizing vans.

Firms Try Harder To Attract Workers

With "help wanted" signs becoming the norm in many areas, small businesses that hire entry-level workers are scratching harder for new ways to attract and keep a full staff.

Many are offering wages well above the $3.35 federal minimum. Others have eased recruiting standards, lowered their own minimum-age levels, hired more part-timers and turned to temporary-employment agencies.

Restaurants, hospitals and other businesses with fast employment-turnover rates are proving to be particularly innovative.

Many are adding sweeteners—bonuses, gifts, extra holidays—to their benefits packages for employees.

For instance, Burger King Corporation has a basket of incentives for the mostly teenage work force at its franchised and company-owned restaurants. In addition to above-minimum wages, it offers flexible hours, free meals, vacations, stock-purchase and pension plans and lots of special attention.

Burger King workers who stay three months can earn bonus money for college. They also receive gifts for good work and for recruiting new employees. Those who recruit management-level workers in some areas can earn substantial cash bounties.

Still, Burger King's staffing problems persist, says company spokesman Tim Hermeling. Like most fast-food businesses, local Burger Kings are widening their search to include other employable groups, most notably handicapped people and retirees.

Observes Hermeling: "The trend now is that teenagers just are not looking for jobs much."

Examine Your Seat Of Power

Oversized, overstuffed and overpriced.

It's nothing personal. We're talking about your chair.

Ergonomic-seating expert Stanley Frank thinks executives make a costly mistake when they sit all day in a high-backed, highly padded chair "with the kind of seat you sink into and feel so totally relaxed you can almost fall asleep."

If your chair is designed mainly to impress and is more conducive to rest than work, ditch it, Frank says. Getting used to a proper chair may take a week or two—depending on your age and how long you've been sitting improperly. But ultimately, he promises, you'll be more productive and have fewer backaches.

The proper chair should be neither too deep nor too shallow, according to

How to avoid three expensive mistakes when you buy a fax machine.

Because you need to know precisely what to look for when you buy a fax, we're going to tell you the facts about fax. And when you add them all, we think you'll agree the new Panasonic FAX+ System may be exactly what you're looking for.

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Why buy a fax machine from a company you don't know, when you can buy one from a company that's already known for its telecommunications equipment—from telephones to answering machines and now, the FAX+ System.

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This Month's NB TIPS

Significant subcontracting opportunities await small firms wanting to do business with the government. Names of contacts can be found in the Defense Department's *Small Business Subcontracting Directory*, which lists prime contractors and costs $7. Order from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; (202) 783-3238. Publication #008-040-00195-4.

Small-business borrowers wondering what types of loans best suit their needs could benefit from *Steps to Small Business Financing*, published by the American Bankers Association. To order, send $2.75 to ABA Order Processing, 10 Jay Gould Court, Waldorf, Md. 20601.

Frank, and it should have a firm seat. Among other things, he says, its backrest should support both the upper and the lower back and should be easy to adjust—and lock—into any fixed angle.

Frank's enlightening book, *How to Prevent Office Chair Backache and Sitting Fatigue*, is free. Order from the Frank Eastern Company, 599 Broadway, New York, N.Y. 10012. Enclose $1 for postage and handling.

Pension Plans' Vesting Deadlines Start January 1

Employers are bracing for higher costs and more bookkeeping headaches after January 1, the effective date for a new law that establishes deadlines for vesting of benefits in company-provided retirement plans.

Most plans now provide full vesting—protection against loss of benefits upon a participant's leaving the company—after 10 years of service.

The new law gives employers two options: Participants must be fully vested after five years, with no partial vesting required before that point, or they may be vested incrementally at 20 percent a year, starting after the third year and reaching 100 percent after the seventh year.

Experts believe most plans will adopt the simpler five-year schedule.

Five-year vesting will add some 2 million plan participants to the ranks of vested workers and will boost the costs of plan contributions by as much as 7 percent, predicts the Employee Benefits Research Institute.

For most small firms, whose retirement plans tend to be less generous than those of larger firms, the additional costs will be minimal, says the EBRI. However, small firms with expensive programs will be more likely than larger companies to terminate such programs because of the vesting changes; bigger firms generally have greater resources to meet contribution increases, says the Washington-based research group.

A Guide For Survival In The 21st Century

Small business' continued viability as the nation's engine of innovation and jobs will rest largely on how readily owners and managers adapt to profound changes between now and the year 2000.

That's the conclusion of a major new federal report on American competitiveness in the 21st century. The 210-page study, *Small Business in the American Economy*, complements the 1988 edition of *The State of Small Business: A Report to the President*, prepared by the Advocacy Office of the Small Business Administration.

The latest study analyzes three key trends expected to affect small firms:

- **Demographics.** Small businesses, which traditionally draw heavily on younger and older workers, will have to adjust to the population's changing age composition.

That means seeking more workers in the prime 35-to-54 age group. Such workers often demand higher wages. Increased labor-force participation by women, minorities and immigrants will bring more pressure for employer-provided child-care and other benefits.

- **Technology.** Many small businesses, lagging so far, will have to catch up with their larger competitors in using computers to improve production and service efficiency. That translates into substantial small-business investment in equipment and training.

- **Trade.** Small firms, often unaware of overseas markets, will have to adopt a new outlook as the nation becomes more dependent on international commerce.

A world economy that is expected to grow faster than the domestic economy over the next 10 years should give smaller firms added market opportunities abroad, the report found.

Small Business in the American Economy may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The price is $6.50. Ask for 045-000-00252-7. NB

Sampling A Survey Of Business Owners

In a survey sponsored by New York Life Insurance Company and conducted by Survey Research Corporation, about 4,000 small-business owners were asked wide-ranging questions concerning their businesses and how they got started. Here are some of their responses:

	Yes	No
Are you in a family business?	49%	51%
Did you hold a regular job before owning a business?	83	17
Did you voluntarily quit that job?	82	18
Do you have, or have you ever had, a written business plan?	22	78
Does your business offer employee benefits?	39	61
If you offer benefits, which ones?		
Health insurance	75	25
Life insurance	33	67
Disability insurance	29	71
Pension	16	84

The small-business owners who took part in the survey also were asked: "With the experience you now have, would you advise people to start a business today?" Sixty-two percent said yes, 13 percent said no, and 25 percent were not sure.

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INTERNATIONAL BUSINESS

U.S. Exports' Elastic Strength

By Steven Golob

Conventional wisdom holds that the U.S. export boom triggered by the dollar's decline would be reversed by a resurging American currency.

The economic equation is clear-cut: A weaker dollar makes American goods more competitive abroad and makes imports less competitive in U.S. markets. A stronger dollar has the opposite effect.

But many economists point out there are factors other than the decline of the dollar in the current export surge. And these factors, the experts say, could help U.S. exporters maintain their hold on newly captured foreign markets even if the dollar regains strength, as it has shown signs of doing recently. U.S. exports also have been helped by:

- The continued vitality of U.S. service exports. Even before the dollar declined and U.S. merchandise exports became more competitive in foreign markets, U.S. services were in demand in other countries. During periods when the dollar was strong and the U.S. trade deficit was hitting record highs, exports of services nonetheless exceeded imports, and that edge has increased as the dollar's value has fallen in relation to other currencies.
- The dramatic new emphasis by many U.S. exporters on making quality products and developing leading-edge technology.
- The return home of some U.S. manufacturing that had been shifted to countries where labor costs are lower. The return of some manufacturing to U.S. soil has been attributed not only to the lower dollar but also to productivity increases and labor give-backs, in which unions help ease cost pressures on employers by surrendering gains that had been made earlier in areas such as wages or working conditions.
- The strength of foreign economies, which seem able to absorb U.S. exports for the foreseeable future.

Executives of several large U.S. companies, seeking insights on foreign economic trends and on the probable direction of the dollar, recently have visited the Institute for International Economics, in Washington. Stephen Marris, a senior fellow there, says these visitors "come in to talk to us and ask, 'What are the chances the dollar might go up again? I've been burnt once before.'

"Lots of others have been burnt once before, too. We had a big export boom in the United States in 1979, '80 and '81, the most recent times the dollar was down. A lot of people went hell-for-leather into export markets, and within two years they found themselves priced [back] out."

William Cline, another senior fellow at the Institute for International Economics, says that "it's highly unlikely that the dollar will strengthen [significantly] over the next three or four years." In fact, he tells business executives, "it's considerably more likely that it will dip further. So now is an excellent time to invest in exporting."

Marris is less certain. "Without a very firm policy on the part of the next administration to maintain the dollar at somewhere around its present level," he says, "the dollar is very likely to go up again, much too much and much too soon."

Cline says that a sustained climb in the dollar would be signaled by "sharply rising U.S. interest rates without a corresponding rise in inflation."

PHOTO: TIM KELLY—BLACK STAR

Computer hardware is available everywhere, but software is harder to come by overseas. So foreign sales opportunities abound for U.S. firms like WordPerfect, of Orem, Utah.

Cline is finishing a book titled *United States External Adjustment and the World Economy*, which will address the concerns of international business people through economic projections for 17 geographic markets.

Cline sees economic growth continuing worldwide, though he adds, "I'm not sure that it will continue at quite the recent pace." That pace has varied from country to country, says Marris, but overall it's been "jolly good economic growth."

The vigor displayed recently by U.S. service exports shows that the rest of the world seeks services that are more innovative or technologically advanced, are backed by more experience or capital, or are offered in more ways or performed with better skills than those available domestically in other countries.

Commercial and investment banking and insurance are examples of traditionally strong U.S. service exports. Contemporary examples include aircraft maintenance and the leasing of airplanes and other big-ticket business equipment.

At the moment, two hot U.S. service exports are software for personal computers and airborne, door-to-door delivery of small parcels. For small to mid-sized companies, exporting of PC

The dollar's decline set off the U.S. export boom, but a strengthening dollar will not necessarily mean a drop in overseas sales.

software can offer particularly attractive opportunities.

While computer hardware is available everywhere, customized software is harder to come by overseas. At the 400-member Software Publishers Association, in Washington, Executive Director Kenneth Wasch says, "We've been flogging our members" to export because it presents "an absolutely terrific opportunity."

But export opportunities exist for small service companies that don't develop software or deliver packages overnight. "There is something about U.S. services [that makes them attractive] beyond just the decline in the dollar," says Cline. "We've [always] had a strong, competitive position" abroad in this sector.

Some suspect that the "something" is the English language. For services, especially communications services, language is a key factor. Since English has become the world's unofficial second language, after each country's native tongue, English-speaking countries have a significant advantage in selling their services abroad.

Merchandise exporters' successes in overcoming a future strengthening of the dollar may depend on how well they distinguish their products from those available locally. Exporters of undifferentiated goods, such as raw materials, would suffer if a rising dollar forced them to raise prices. But exporters who had won markets because of product performance and not price would fare all right, though they might have to trim profits to hold market share.

Entrepreneurial businesses historically have been innovative in making products and services competitive. Here, big companies may be at a disadvantage, since smaller firms usually can move more quickly to adopt new, cost-saving production techniques or service methods.

Of course, small companies aren't easily able to move production in order to concentrate it in countries where currencies are down, and they generally don't have labor unions to negotiate with on give-backs—two ways that some bigger companies have been able to cut costs to compete internationally.

And small companies, especially service firms, often have a serious problem in becoming exporters in the first place. Most such firms are established to serve only a U.S. market, usually a very particular U.S. market.

PHOTO: [illegible]

William Cline, of the Institute for International Economics, says the dollar is likely to "dip further. So now is an excellent time to invest in exporting."

An example can be seen in the insurance industry. Gordon Cloney is president of the International Insurance Council, in Washington, and also is chairman of a U.S. Department of Commerce advisory committee on exporting of services. He observes that "insurance has a considerable role in facilitating international trade." It's a necessary part of shipping. Yet only about 50 of the 5,000 U.S. insurance companies export their services, he says. Cloney says most simply aren't big enough to operate internationally.

U.S. exporters soon may be helped by a free-trade agreement with Canada and by the new U.S. trade law. The U.S.-Canada free-trade agreement, which would eliminate tariff and nontariff barriers to trade between these nations, has been approved by the U.S. Senate and is pending in the Canadian parliament. And if the Omnibus Trade and Competitiveness Act of 1988 proves to be as effective as its framers have said it will be, more foreign barriers to U.S. goods and services will be lowered, and more U.S. industries can commence exporting.

Further into the future, exporters everywhere may benefit from the current round of talks by members of the General Agreement on Tariffs and Trade (GATT). Trade ministers from GATT's 105 member countries meet in December in Montreal, where they hope to agree on a blueprint for reducing restrictions on trade in services.

Separately, finance ministers of the major industrial countries are discussing establishment of limits within which currencies would be allowed to fluctuate. Manufacturers the world over seek such limits to provide them with some certainty before they invest in new plant and equipment. They are concerned that a dramatic rise in their home currencies could price their products out of foreign markets and bring to naught their capital investments.

While currency-fluctuation restraints remain to be worked out, the dollar moves freely. As far as American companies are concerned, a rising dollar needn't affect all exports adversely; the most innovative exporters will manage to stay afloat. NB

ENTREPRENEUR'S NOTEBOOK

Colleges, Like Companies, Need Vision To Succeed

By Keith Briscoe

The recession of the late 1970s forced many businesses to restructure—and many colleges to start behaving like businesses. At Buena Vista College in Storm Lake, Iowa, where I'm president, business terms such as "forecasting," "bottom line" and "market segmentation" were rarely heard on campus before the 1970s. With the recession, however, they became commonplace. Hard financial times were upon us, and we looked to successful businesses to learn the strategies that could help us to succeed.

In an effort to learn how businesses operate, I enrolled in management courses sponsored by the American Management Association. Earlier I had attended workshops that staff members of Standard Oil of Ohio conducted for employees.

I learned that successful entrepreneurs have a vision, which gives them something to strive for and the impetus to succeed. And I realized that to be successful, colleges today must operate like businesses. They must depend on people with vision to spur them toward their goals. I knew that as the president of the college, I had to understand business realities such as global economics, government regulation, revenue streams, corporate image and the market's effects on income and expenditures. But this knowledge is secondary to the entrepreneurial vision that inspires and motivates. I discovered that if my college were to succeed, I would have to think and act like an entrepreneur.

Buena Vista is a small, private college with a curriculum that blends professional and liberal-arts programs. Our students are from Iowa and neighboring states, which abound with other colleges that compete with us for students. We knew we had to be different to succeed.

Our vision was to be Iowa's best undergraduate school, providing a broad education—with depth in certain critical areas—to students who would later become leading attorneys, business people, educators, physicians and other professionals. By every measure, we are successful.

One measurement is our employees. During a recent construction project, we had to hire workers to hang six tons of wallpaper. One applicant was a woman who weighed 100 pounds. We asked her how she was going to hang all that paper. She said, "One sheet at a time."

We hired her in a minute. Her commitment to her work was infectious, and her sense of quality was outstanding. "This is going to be here longer than we are," she said. "We want our name on it." With her determination to be the best she could be, she embodies the vision of the college. Today she directs our $10 million conference center.

Like success in a business, the success of a college is predicated on how well employees understand and espouse the vision of the institution, how much they give of themselves in the performance of their duties and responsibilities and how clearly the organization demonstrates that it cares for the well-being of its employees. And on the intangible personal contribution, which our wallpaper hanger and many other Buena Vista employees make, that depends largely on creativity.

Early on, I assembled a first-rate team and gave its members freedom to use all their skills and creativity. It proved to be management by chaos.

I didn't always comprehend the importance of vision and motivation. When I began my tenure as president, I believed that the best CEOs were those who recruited the best people. I learned the hard way, however, that simply enlisting excellent employees and managers wasn't all there was to it. Early on, I assembled a first-rate team and gave its members freedom to use all their skills and creativity. It proved to be management by chaos.

After several months, during which I prided myself on having the most energetic and exciting administrative group in the country, I noticed that our middle managers were squabbling. Each administrator was setting records in his or her area, but the administrators' interests and efforts did not always comport. The managers had enviable talents, were tireless in their efforts and were committed to the college, but they were not united in their purpose. That's when I realized how important a shared vision is to a thriving enterprise, whether it's a business or a college.

Large organizations offer workers stability, but if there is no shared vision, their staff members may feel anonymous. In small businesses there are constant challenges, and people feel like they make a difference. Small colleges are the same.

The college president or small-business manager sometimes must convince employees that it's worth their future to work in a small organization. If employees share the vision, are concerned with quality and know that their efforts are sincerely appreciated, they will survive shifts in product or customer base in the business world. And in the academic world, they will survive changing demographics.

It's no accident that the quality of our students has improved, the number and the amount of gifts to Buena Vista have increased, and our faculty is held in high regard. It's because more and more people are sharing the vision. NB

Keith Briscoe, president since 1974 of Buena Vista College, in Storm Lake, Iowa, initiated the Harold Walter Siebens School of Business at the college in 1980 and is on the Board of Governors of the American Council on Higher Education.

Readers are invited to contribute to Entrepreneur's Notebook, a forum in which owners and/or managers of smaller to medium-sized businesses discuss their experiences. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

High Marks For The 100th

Small business recently won major victories in Congress, overpowering labor's strongest onslaught in two decades.

By Albert G. Holzinger

As the 100th Congress drew to a close, Sen. Alan K. Simpson (R-Wyo.) was among the members appraising its record.

"It is truly a stunning legislative record," said Simpson, who holds the No. 2 leadership position among Senate Republicans. "Good legislation, powerful legislation, innovative legislation, things we hadn't dealt with for all the years I've been here, we got done."

Joining the senator in giving high marks to the 100th Congress was one group that had not expected to be the least bit happy about the lawmakers' product—the small-business lobbyists, who had spent most of 1987 and 1988 in an uphill fight against their counterparts from organized labor.

"We never thought this Congress would do anything *for* small business, so the gauge [with which this Congress must be judged] is, 'What did it do *to* business in the labor area?' " says Albert D. Bourland, vice president for congressional relations of the U.S. Chamber of Commerce.

And, he points out, it did very little *to* business.

"Small business had a tremendously good two legislative years," Bourland says. "It met the biggest onslaught of power assembled by the unions in my 20 years in this town and turned it back."

Business' biggest labor win came in the fall, when Congress balked at increasing the $3.35-an-hour minimum wage by $1.20 or more over three years. It was the first time Congress spurned a proposed minimum-wage increase since the Fair Labor Standards Act was enacted 50 years ago.

Opposition to the wage hike was led by the Minimum Wage Coalition to Save Jobs, spearheaded by the U.S. Chamber. The coalition's central argument against the measure was that a minimum-wage hike would cost the jobs of hundreds of thousands of low-wage earners.

This argument, made by the coalition for a year or more, put Sen. Edward M. Kennedy (D-Mass.) and other leading proponents of the wage hike in a position to which they were unaccustomed: the defensive. They never were able to retake the offensive.

Senate Majority Leader Robert Byrd (D-W.Va.) abandoned Kennedy's proposal after a week of debate and two unsuccessful attempts to end a filibuster. The House never even considered a companion bill.

PHOTO: RICK BRADY—UNIPHOTO

Business groups, led by the U.S. Chamber, persuaded Congress that increasing the minimum wage would jeopardize the jobs of hundreds of thousands of low-wage earners.

While minimum wage was business' most visible win over labor in the 100th Congress, it was only one of several victories.

Last February, after a week-long filibuster, Byrd gave up on legislation that would have created a Risk Assessment Board within the Department of Health and Human Services. The board would have been required to notify current and former workers individually of disease risks associated with workplace exposure to hazardous substances. The House had overwhelmingly approved a similar measure in 1987.

Employers support the intent of this proposal, but their representatives in Washington opposed this bill on the ground that it would establish a bureaucracy whose functions would largely duplicate those of the Occupational Safety and Health Administration. Also objectionable to employers was the estimated cost of $5.8 billion over five years to identify and track former employees who might have been exposed to workplace hazards.

Robert L. Martin, executive director of the Minimum Wage Coalition to Save Jobs, believes labor's inability to come even close to delivering the senators it said were committed to ending business' filibuster of the risk-notification bill was a strong signal that the overall labor agenda, including the minimum wage, was in trouble. (Only about 40 of the required 60 senators ever voted to end the risk-notification debate.) Martin says Byrd grew distrustful of labor's subsequent head counts and was reluctant to bring its bills to the floor.

For various reasons, the House and the Senate never took up a host of labor-backed initiatives, including:

- Several competing proposals for a national child-care system.

The most ambitious of these would have subsidized day care for low- and moderate-income families, set minimum federal standards for child-care providers and provided for training of day-care centers' workers. It would have cost $2.5 billion in the first year alone.

A far less intrusive and less expensive proposal—$375 million the first year—would have provided block

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Major Actions Of The 100th Congress

Business was apprehensive when the 100th Congress convened in January, 1987. Democrats had regained a Senate majority and controlled both houses of Congress for the first time since 1980.

Under GOP control, the Senate had blocked many antibusiness moves that originated in the House, and business saw a potential danger in the new makeup of Congress.

But for the most part, that fear had not been realized when the 1987-88 congressional term ended. Here is a summary of major developments in that Congress.

BUDGET AND TAXES

• **Appropriations.** Last year Congress lumped more than $1 trillion in spending into a veto-proof omnibus resolution. This year, for the first time in four decades, it cleared all 13 appropriations bills on time under deficit-reduction guidelines agreed to by President Reagan and Congress. Still, with the fiscal 1989 deficit projected to be $146 billion, the tough decisions on spending reduction will have to be made by the next Congress.

• **Taxes.** One of Congress' last actions was enactment of a miscellaneous tax bill to correct errors in the 1986 tax act; extend tax credits for research and development, educational assistance and targeted jobs; preclude triple taxation of intercorporate dividends; restrict the completed-contract method of accounting; institute a "Taxpayers' Bill of Rights"; and accelerate estimated corporate-tax payments.

ENVIRONMENT

• **Clean air.** There was no resolution of the controversial issues of how to deal with localities that do not meet Clean Air Act standards and whether to mandate industrial reductions of sulfur dioxide in an effort to curtail acid rain.

• **Clean water.** The Clean Water Act was extended, providing about $18 billion in loans and grants for construction of sewage-treatment plants.

• **Endangered species.** The lawmakers extended the Endangered Species Act, which has been used by environmentalists to block development.

• **Pesticides.** The law governing testing, approval and use of pesticides was extended. The measure contains a 9-year timetable for the Environmental Protection Agency to review the safety of pesticides now on the market.

HEALTH AND WELFARE

• **Catastrophic illness.** Medicare was expanded to provide unlimited free hospital and physician care after certain deductibles are met. Added coverage will be financed by beneficiaries.

• **Welfare.** The Congress radically overhauled welfare laws, requiring states to establish education, training and work programs to help people become self-sufficient.

TRADE

• **Trade law.** Current trade law was strengthened without becoming protectionist. The action signaled that the United States regards trade as a high priority and will assert its legitimate rights in this area more aggressively.

• **U.S.-Canada trade.** The Senate ratified an agreement signed by President Reagan and Canadian Prime Minister Brian Mulroney to virtually eliminate all barriers to the flow of goods and services between the two countries.

GENERAL GOVERNMENT

• **Highways.** Congress authorized $88 billion for highway construction and authorized states to raise the speed limit on rural portions of interstate highways to 65 miles per hour.

• **RICO.** The lawmakers failed to reform the Racketeer Influenced and Corrupt Organizations Act, a statute intended to facilitate prosecution of organized crime. RICO is being invoked in common commercial disputes, and under it, some businesses with no ties to organized crime are being assessed triple damages.

• **"Grove City."** The Supreme Court ruling in the *Grove City* case was reversed. It had dealt with the application of antidiscrimination laws to higher education, but business held that the "corrective" action by Congress extends those laws to such businesses as grocery stores that accept food stamps and drug stores that fill Medicare prescriptions.

grants to qualifying public and private day-care centers, established an insurance pool to reduce day-care providers' liability-insurance costs and set aside funds for improving child-care facilities. Still other proposals would have used the tax system to subsidize day care.

Even some strong supporters of expanding government assistance to working parents were happy to see the day-care bills die in this past Congress. Rep. Barbara Kennelly (D-Conn.), referring to the day-care issue, says, "We have to look at it, we have to work at it, and we should take the full two years of the next Congress and do it right."

• A proposal to create an 11-member commission to examine wages for jobs done mostly by women and for jobs of "comparable worth" done mostly by men, in order to determine if women are paid less because of systematic sex discrimination.

Business fears such highly subjective evaluations made by bureaucrats could replace market forces in determining the worth of jobs in the public as well as the private sector.

• A ban on "double-breasting," a common management practice in the construction industry.

Under double-breasting, one or more owners operate both a union and a nonunion contracting firm, each of the two firms separately financed, controlled, managed, equipped and staffed. This measure could force many construction employees to join a union against their wishes. And construction employers view a ban on the practice as unwarranted interference with their right to manage.

Some measures under the heading of mandating benefits for workers fell by the wayside in the 100th Congress.

Sen. Byrd began and then later abandoned debate on legislation to make most employers provide unpaid but job-protected leaves of up to several months following the birth or adoption of a child or the serious illness of a child or dependent family member.

Congress also spurned bills requiring employers to provide comprehensive health insurance to approximately 24 million workers currently not covered, at an estimated cost of at least $1,000 per worker.

But these and other mandated-benefits bills seem certain to surface when the 101st Congress convenes in 1989. Sen. Simpson says that when members

of Congress were home campaigning this past summer, business constituents told them: "Don't do that thing on parental leave. Let us have the flexibility to do it in our own companies the way we want." But he adds that there is no guarantee that employers will be as vocal or lawmakers will be attentive now that the elections are behind them. NB

Polygraphs And Plant Closings

The 100th Congress accepted two proposals by organized labor that will require some employers to modify personnel, layoff and plant-closing practices.

Legislation enacted last summer prohibits most employers from using lie-detector tests to screen job applicants or test current employees, effective December 27. Albert D. Bourland, vice president for congressional relations of the U.S. Chamber of Commerce, says of the polygraph prohibition, "It will just make it a little tougher for U.S. businesses to be competitive with foreign companies."

Regulations issued in October by the Department of Labor will require some business owners to display posters summarizing who may and who may not be tested and detailing the rights of those employees who can be tested. Affected businesses will be notified soon by the Labor Department.

A second bill enacted this past summer requires employers with 100 or more workers at a single site to provide 60 days' notice of a plant closing or a layoff of as few as 50 workers. The law is effective Feb. 4, 1989.

Business organizations such as the U.S. Chamber oppose legislation that mandates notices because business conditions sometimes make them infeasible or impossible.

If you have 100 or more employees and would like to learn more about this law, write to the Chamber, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062, and request copies of "The New Federal 'Plant Closings' Law: What Employers Should Know." The price is $1.65 for U.S. Chamber members and $3 for nonmembers. The minimum order is 10 copies, and bulk rates are available.

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COVER STORY

Hot New Markets Of The 1990s

By Joan C. Szabo and Nancy Croft Baker

PHOTO: T. MICHAEL KEZA

Travel agent Helena Koenig, left, offers special tours for grandparents such as Sol and Ruth Loewenstein, planning a trip with grandsons Ethan and Jamie Don.

Helena Koenig's new status as a grandmother provided the impetus for a lucrative new tour package offered by The Ticket Counter, the travel agency she owns in Chevy Chase, Md.

Koenig, a travel agent for 35 years, had been seeking expansion opportunities when her own new role started her thinking in terms of grandparents and grandchildren.

She came up with Grandtravel, which arranges special tours for grandparents and grandchildren vacationing together. She did not have the money for market research, but she was aware of demographic trends that made it sound eminently sensible. With two working parents, many families are finding it more difficult to get away together. Today's active grandparents, on the other hand, are prime customers for travel services.

"My feeling was that with so many working parents, there had to be a real need for grandparenting," Koenig says. She was right. Grandtravel is a big hit, and The Ticket Counter's volume has tripled since it was introduced in 1986.

How is Grandtravel special? The program is developed by a team of teachers, psychologists and leisure counselors. Each itinerary is designed to appeal to both generations.

Grandtravel gives special attention to natural attractions, such as glaciers and jungles, as well as to historical sites. Grandtravel tours include the Kenya Adventure Safari, American Indian Country, England's Legacy and a Galapagos Islands Cruise.

All tours are escorted. And if a grandparent needs help filling a prescription or a grandchild's orthodontic wires need emergency attention, the Grandtravel escort will help.

Koenig's success with Grandtravel is an example of how entrepreneurs are combining their own knowledge and experience with demographic trends to create opportunities by identifying promising new markets for the 1990s.

Among the most significant of these demographic trends:

- The middle-aging of the 76 million Americans known collectively as the baby-boom generation, which now encompasses 1 of every 3 Americans.
- The increasing recognition of the older population as a multifaceted market, which counters the longstanding stereotype of homebound individuals

Entrepreneurs identifying the next decade's lucrative markets see middle-aging baby boomers entering their peak earning years and spending more for the comforts of home, and older Americans able to afford a diversity of services.

Nation's Business
Hot New Markets Of The 1990s

living on marginal incomes that barely cover their necessities.

- The continuing growth in the number of households with two wage earners.
- The rising numbers of families headed by only one parent and of households with only one occupant.

Another major factor that will help shape the markets of the 1990s is the increasing use of technological products and services by a generation that has been familiar with computers since grade school.

The biggest element in the emerging markets of the 1990s is, of course, the baby-boom generation, which has had a major impact on consumerism and lifestyles since it arrived. The generation's members were born from 1946 to 1964, and many are now in their early 40s.

What does this mean for marketing opportunities?

Cheryl Russell, editor-in-chief of *American Demographics* and an expert on demographic change, says in her book, *100 Predictions for the Baby Boom* (Plenum Publishing Corporation, New York):

"The United States stands at the brink of the most affluent decade in its history because of the middle-aging of the baby boom. In a few years, the oldest members of the generation will be at their peak in earning power. Their affluence will benefit American families, communities and businesses. But it will also tighten the nation's purse strings.

"Until well after the turn of the century, middle-aged Americans will anxiously protect what they have. Bread-and-butter issues will be important—taxes, jobs, houses, wages, investments, schools and welfare and immigration will top the nation's economic and political agenda."

A major part of the evolution of the middle-aged baby-boom generation will

Marketing expert Ron Anderson says that with people living farther from where they work, "shopping for commodities is becoming more convenience-oriented."

be the growing importance its members attach to their homes, Russell says, and that development will provide opportunities for many types of businesses.

The home, she explains, "will be the center of American life, equipped with VCRs, home computers, compact-disk stereo systems, ... security systems, answering machines, microwaves, ... and a host of new technologies not yet on the drawing boards.

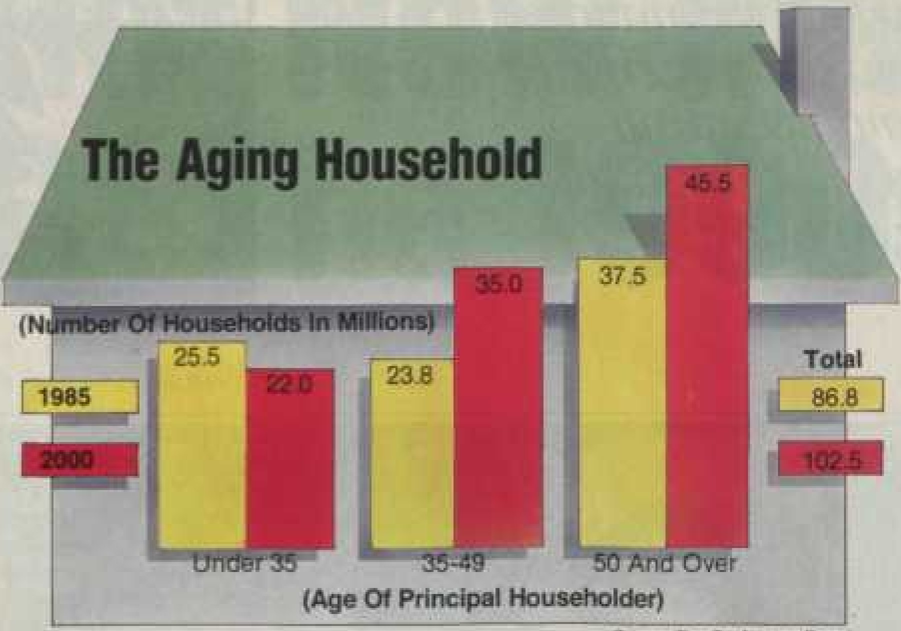
"Middle-aged consumers, short on leisure time and busy raising children, will spend more time at home. The businesses that catered to the young (such as singles bars, laundromats and ski resorts) will have to change their strategies. ... Restaurants and grocery stores are offering home delivery; the health club is moving into the den; even fashions are changing as the middle-aged consumer—more concerned with comfort than the latest style—buys clothes that feel good."

Russell's projections are documented in a report from Impact Resources, a firm of media and retail market management specialists in Columbus, Ohio. According to the report, approximately 15 percent of those in the baby-boom category are now planning to buy land, homes and home appliances. Over 26 percent are planning to purchase furniture. Applied to a base of 76 million baby boomers, those percentages become very significant.

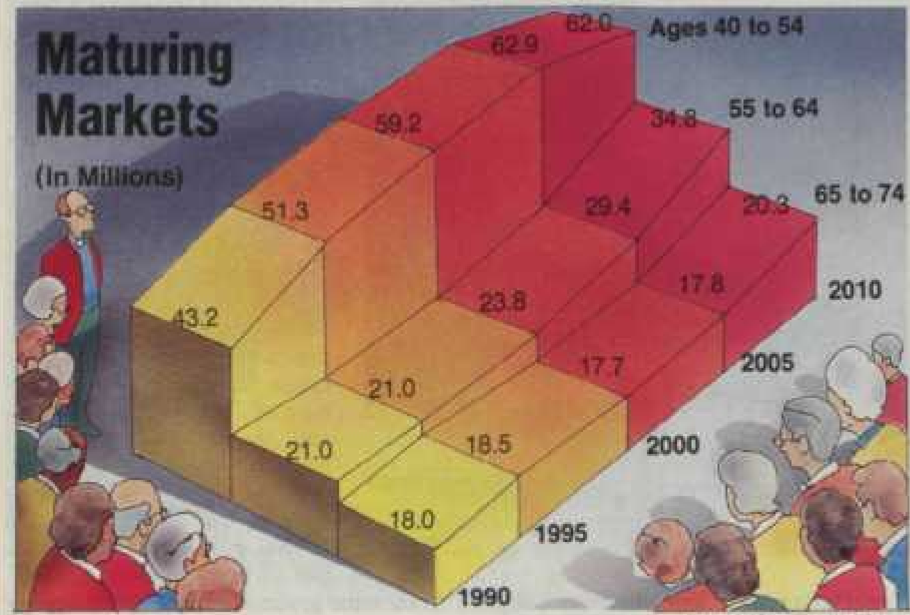
Some additional perspectives on the economic impact of that generation: The number of householders ages 35 to 50 with incomes over $50,000 a year will nearly triple by the year 2000, according to Fabian Linden, executive director of the Consumer Research Center of the Conference Board. And Peter Francese, president of the Ithaca, N.Y.-based American Demographics, Inc., a division of Dow Jones & Company, says that a 1 percent increase in the number of households headed by people 35 to 54 means an additional $8.9 billion in consumer expenditures each year.

Marketing experts say that demographic groups can be divided into subcategories. For example, baby boomers—and some of the products and services they'll be seeking—include:

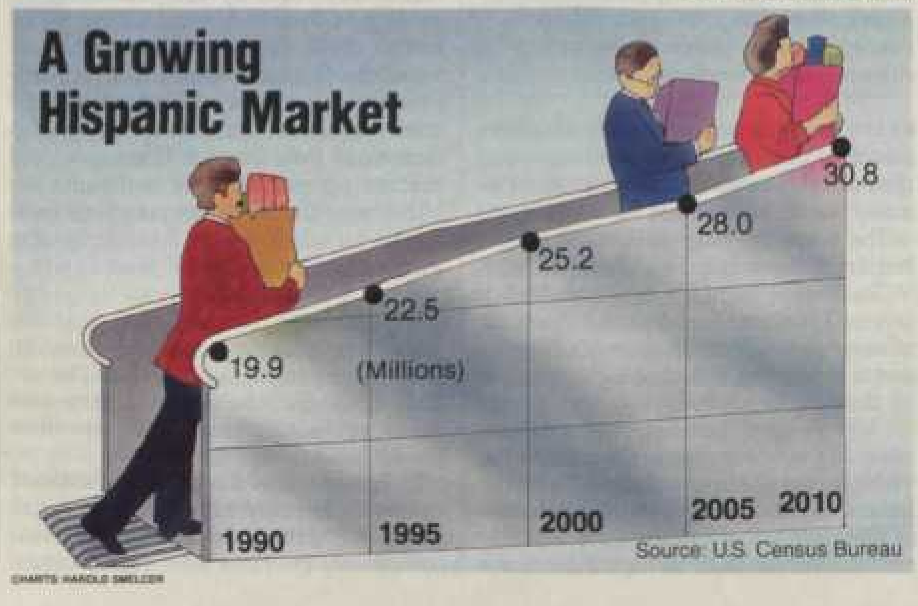
- **Professional households without children.** Microwaves, home delivery of food, answering machines, electronic equipment, gourmet and health foods,



Source: The Conference Board



Source: U.S. Census Bureau



CHARTS: HAROLD SMELCER

wine, travel, exercise equipment, convenience-oriented products, investment and other financial services.

- **Professional households with children.** Child-care services, VCRs, home entertainment equipment, home improvement services, lawn and garden products, financial and tax services.
- **Up-and-comers.** (At the young end of the baby boom, they are achievement-oriented, just entering their professions and setting up households.) Convenience products, home delivery of food, furniture and appliances. With their consumer preferences outpacing their incomes, they are likely to buy the cheapest brand of toilet tissue yet only name-brand tennis shoes.
- **High-income skilled-trades people.** Starter homes, speed boats, lawn mowers, sports equipment, cars, vans.

The baby boomers' home orientation won't mark a retreat from the interest in health, fitness and proper nutrition that marked their earlier years, says Peter Kim, senior vice president of J. Walter Thompson Company and executive director of its consumer behavior department. "We find that 87 percent of Americans are willing to pay much more for health foods, and 70 percent read the nutritional information on their product labels."

Businesses providing financial services will be in an excellent position as the maturing baby boomers grow more concerned about life insurance, paying college tuition for their children and planning for retirement. "This should mean a boom for the financial-services business," says the American Council of Life Insurance.

Changes in consumption patterns as a result of demographic trends are by no means limited to trends among baby boomers, however.

R.B. Fitch of Chapel Hill, N.C., is well aware of that. His family had been in the lumber and building business in central North Carolina since the early 1900s, and he grew up learning how to build and sell houses. He started his own company, Fitch Creations, Inc., some 35 years ago and concentrated on building houses, which were purchased mainly by young families.

But he noticed several years ago that the interests of potential buyers had started to change. The ranks of those inspecting houses in Fearrington, a development he started and has continued to expand, included fewer young families from the immediate area and more

Harriette Armacost, left, a hardware-store owner in Harlingen, Tex., sees a growing number of younger, more affluent Hispanic couples renovating homes in the area. To reach this widening market made up of families such as Joe and Roxanna Torres, shown with daughter Cindy, Armacost began advertising on Spanish-language radio.

PHOTO: BRAD DOHERTY

older ones. The older families had come considerable distances, some from as far as Connecticut, in search of homes for their retirement years.

Fitch now advertises Fearrington, which is 8 miles from the University of North Carolina in Chapel Hill, as a good place to retire. "People didn't used to move somewhere to retire, they sort of retired where they were," he says. "Now people have become very mobile."

His marketing tools include brochures, videotapes and magazine ads designed to attract "the 50-and-over person who is retired but still wants to take advantage of the university and other activities and doesn't need a full-service retirement community."

Fitch makes a point that others seeking marketing opportunities among older age groups might keep in mind: There are advantages in a balanced approach. Older residents provide a stability that attracts younger buyers, he says, and the presence of young families with children is often an incentive for older people. "We promote both segments," Fitch says.

That balance is evident in other markets. While the demand for appliances might fall with the coming decline in the number of people in the traditional age brackets for starting households, many older people are setting up new households for reasons such as remarriage, a move to a more beneficial climate or purchase of a smaller residence with fewer upkeep demands.

"There's a whole new market for appliances for these older people setting up new households," says Joyce Fitzpatrick, a partner in New Age Strategies, a market-research firm in Washington, D.C. She also points out that the over-50 population will be a hot market for colleges and other schools experiencing enrollment declines as the youth population shrinks.

Whatever the product or service, entrepreneurs aiming at an older market will find it massive. It's now estimated at $900 billion a year. Older consumers account for half of all discretionary income and control more than three fourths of the country's wealth. It is a very important, growing group.

George P. Moschis, professor of marketing and director of the Center for Mature Consumer Studies, at Georgia State University in Atlanta, says the products and services that older Americans will be seeking in greater quantities can be grouped in two major categories.

One relates to the functioning of the person—to health and biophysical needs. The other is connected with satisfying social and psychological needs, such as leisure and entertainment, and products that have social significance, such as communication devices to keep in touch with others or to reach others in an emergency.

The psychosocial products will increase in importance not only because there will be far more older people in the 1990s, but also because their lifestyles will be far more active than those of previous generations of older Americans. And they will have the money to support those lifestyles.

Moschis identifies four classifications of older consumers, along with the products and services that are likely to do well for each group:

Healthy Hermits. Their health is good, but they are psychologically withdrawn from society. They make up a good market for domestic-assistance products and services of various types, such as housecleaning, laundry pick-up and delivery, meal preparation, shopping, as well as home entertainment products and household-management activities, including financial, legal and tax services.

Ailing Outgoers. Though their health is poor, they are socially active. It is a market for planned retirement communities, medical and health services, home health care, telecommunications products such as call forwarding and call waiting, and leisure, travel and entertainment services. This market is also interested in self-monitoring health services and security arrangements that include alarms and communications arrangements for summoning medical or other emergency help.

Frail Recluses. They are in poor health, and they are withdrawn from society—a market for home health care, domestic-assistance products and services mentioned above for "Healthy Hermits," plus health and medical services, home entertainment and housing.

Healthy Indulgers. They enjoy good health, are socially engaged and are relatively wealthy. It is a good market for financial services, clothes, high-technology products, and services focusing on leisure, travel and entertainment.

As part of the recognition of the marketing potential among older people, advertisers are reshaping their messages to show such people as active members of society.

Some marketing techniques also deal with the deep-seated view held by many older people that it is wrong to spend money on themselves for anything beyond necessities. Moschis notes that many of today's seniors were brought up with the idea that they should save their money to pass it on to their children.

While some older people have that outlook, Harrison Hickman, a Washington-based market researcher, believes that self-denial is a fading attitude. "Older people are buying all the consumer products they see their children have bought," he says. They are doing this, he explains, "because they see this

material wealth of their kids, they see less reason to try to pass that money on. This represents enormous marketing opportunities for business."

At the far end of the age scale, the oldest of the old represent one of the fastest-growing population groups. That group will be 50 percent larger by the end of the next decade than it is now, and the need for medical and other types of care for these people will grow accordingly.

"Assuming present levels of institutionalization, there will be demand for approximately one new 100-bed nursing home every single day for the next 10 years just to accommodate the growth of the 85-plus age group," says Peter Francese of American Demographics.

But determinants other than age are changing consumer needs. One major factor is changing lifestyles, particularly the still-accelerating trend of dual-career couples. In 1983, marriages in which both husband and wife held jobs represented 50 percent of all married couples. The number is expected to be 65 percent by the end of the next decade and 75 percent by 2000.

Entrepreneurs who help these couples save time by doing things they are unable to do themselves will thus find many new opportunities through the 1990s. "Small businesses that offer such personal services as housecleaning, child care, investment management and travel planning will continue to prosper," says Marvin Cetron, president of Forecasting International, Ltd., in Arlington, Va.

Those entrepreneurs will find ways to let busy working couples make the most of their off-duty hours. Bambolino's, a Houston drive-through offering Italian food, is such a business. Says Kathleen Paulson, director of the recently launched franchise-sales operation: "Market research indicated that busy people want to be able to buy good meals or snacks quickly. In addition, they want these items to be affordable."

Bambolino's is housed in a portable kiosk where customers driving through buy freshly made pizza slices, spaghetti, lasagna, Italian salad and garlic bread.

"We are catering to people who are on the go but are very quality-conscious," Paulson says. Further signs of the company's grasp of what consumers want: The food can be reheated in a microwave oven, and the products have ingredient labels.

Another example of the type of services that busy Americans will seek in

How To Do Your Own Market Research

Tracking demographic changes and consumer demands in your target market doesn't have to cost a lot of money and doesn't necessarily require that you hire a market-research firm. There are many ways that you can be your own market researcher, says J. Donald Weinrauch, a marketing professor and consultant.

Weinrauch, who teaches at Tennessee Technological University, and Nancy Croft Baker, assistant editor of *Nation's Business* and coauthor of the cover story in this issue, wrote *The Frugal Marketer: Smart Tips For Stretching Your Budget*, which will be published by AMACOM in the spring. Here are a few low-cost market-research tips from their forthcoming book:

- Check returned warranty cards, inventory records, cash-register receipts and customer correspondence to track what products and services are gaining or losing popularity.
- Scan your industry's trade journals and your professional association's publications for information on industry trends. Attend industry trade shows where you can talk with others in the field.
- Set up an advisory panel to act as a sounding board on community demographics and on whether your business is meeting its needs. Members can include your top salesperson, accountant, attorney, banker, clergyman, a neighbor—anyone whose opinions you value.
- Ask your customers to participate in an informal focus group. Let them express attitudes about your product or service and how you can improve it. Ask what competitors are doing. You might consider giving customers an incentive to participate, such as a discount or a free gift. And be sure to let them know how long the session will last. Don't let discussions become too lengthy.
- Conduct an informal poll of people who are not your customers to see whether they may or may not have use for your product. Stop people in a shopping center, for instance, and ask them if they would mind answering a few questions for your survey. You can conduct a poll anywhere you find consumers.
- Ask suppliers if they're seeing any demographic changes in the marketplace. Some larger vendors supply demographic data to clients as a customer service.
- Scan public-domain documents and legal notices in the community. An owner of a small, interior-design service, for example, goes to the county courthouse at the beginning of each month to study the latest building permits. This not only gives him a good picture of the economy, but it also identifies key business contacts and residential and commercial real-estate owners who could be prospective customers.
- Ask local newspapers, radio and television stations to provide you with their reader or audience surveys. The media regularly survey their audiences to compile demographic statistics that will attract potential advertisers.
- If license plates in your state include the name of the driver's county, survey the plates around your company's location. To save direct-mail costs, target your mailings at the counties most frequently represented.
- Teach your employees to be good listeners. Employees should also routinely ask questions such as: "Is everything satisfactory? Do you want any products or services not currently offered? How did you find out about the business? Is there anything we can do to improve our service?"
- Display a suggestion box.
- Contact customers who have not purchased anything in a long time. You can obtain their names and addresses from company records. Many small businesses display a guest book next to their cash registers and ask customers to fill in important information, such as their names, addresses, phone numbers, birth dates and why they frequent the firm. Some savvy marketers use the information also to send customers birthday cards and notices of sales.

R.B. Fitch, below left, a home builder in Chapel Hill, N.C., noticed several years ago that prospective buyers looking at his Fearrington development, below, included fewer young families living nearby and more older couples, from places as distant as New England, relocating for their retirement years. Today, 80 percent of his buyers are retired.

PHOTOS: DUANE HALL—VIS-TEC

greater numbers is Lois Barnett's P.S. Personalized Services of Chicago. For $20 an hour (with a minimum of three hours a month), Barnett and her staff perform for their clients any of various chores, such as standing in line for theater tickets, buying gifts, walking dogs, shopping for groceries, running errands and even balancing checkbooks. "Our growth is very steady," says Barnett, a former management consultant. "With little or no advertising, we attract at least three new clients a month."

Ron Anderson, marketing-research manager for Tultex Corporation of Martinsville, Va., which makes sweatshirts, is also operating on the assumption that time is a commodity. As part of his job, he keeps an eye on demographic trends, attending conferences and reading relevant publications—activities that business people concerned about spotting new markets should consider for themselves.

"One thing I've learned," Anderson says, "is that people are moving farther away from their work sites, so their commuting time is getting longer. This means that shopping for commodities is becoming more convenience-oriented." For Anderson, that means heightened interest in "one-stop shopping centers located along major commuting routes" as outlets for his firm's products.

These one-stop shopping centers, often the size of several football fields and generally called "hypermarkets," indicate the growing demand for time-saving shopping arrangements. In addition to groceries, they offer clothes, appliances, toys, pharmacy and optometric services, banking facilities and videocassette rentals. As a result, they provide to entrepreneurs opportunities for lease arrangements to distribute their products within these high-traffic shopping complexes.

When it comes to new and expanded markets of the future, technology will offer some of the biggest opportunities. Consider the growing use of computers in classrooms and the entrepreneurial opportunities in the sales, installation, training, servicing and upgrading of these units.

Schools now spend an estimated $5 billion a year on new equipment of all types, and education officials say an increasing percentage of that total will go to computers and related equipment in coming years.

IBM reports: "Kindergarten through 12th grade schools in the United States are now adapting and buying computers, software and related services at a projected rate of $25 billion to $30 billion over the next 10 years."

The impact of technology on other areas will also increase over the next decade. There will be tremendous growth in medical diagnostics and therapeutic treatments, says Robin Grossman, a vice president in the venture-capital division of Salomon Brothers.

For example, she points out, "biosensors are beginning to bring the diagnostics to the patient's bedside. The result is that there will be very fast, accurate tests that formerly had to be sent to the laboratory."

"Videotex"—home shopping by way of a personal computer—is also expected to expand over the next decade. Prodigy, a videotex company based in White Plains, N.Y., has developed a database through a joint partnership with IBM and Sears. For approximately $10 a month, people can have unlimited use of a comprehensive database that permits the computer user to perform activities such as buying stocks, carrying out banking transactions, reserving theater tickets, purchasing groceries, calling up all or part of various publications and ordering from catalogs.

"It's a whole new area of distribution, purchasing and advertising coming together," says Peter Kim of J. Walter Thompson. With such technology, he adds, small companies are in the same position as larger ones in the same database in their efforts to attract consumer attention. The smaller firms, Kim says, will gain "a whole new level of distribution and communication that they didn't previously have."

In fact, says Kim, smaller businesses may be in a better position overall to

compete for an important share of emerging markets that are becoming increasingly fragmented. "Small businesses may be able to fulfill certain needs or wants within certain small segments" that might be unknown to large competitors or that might be regarded by them as unprofitable.

The most savvy small businesses, the experts say, will be those that recognize that the basic demographic segments usually contain many subcategories.

The Hispanic market, for example, is growing nearly five times faster than the rest of the population. The number of Hispanics in the United States has increased by more than one third since 1980. By the year 2000 their numbers are expected to reach 25.2 million, or 9.4 percent of the population. (This projection assumes the end of illegal immigrants entering the United States.) A recent poll by Fleishman-Hillard Research of St. Louis shows that nearly one third of Hispanic households have incomes above $25,000.

Harriette Armacost, who owns Harlingen Hardware in Harlingen, Tex., where the population is 80 percent Hispanic, has tracked over the past few years a growing segment of younger, increasingly affluent Hispanic couples who form a category within the overall Hispanic community.

"I've noticed that a lot of them are getting into the rental market," Armacost says. "They're buying older homes or apartments and fixing them up to rent." To reach this market, she is advertising on a Spanish-language radio station that features progressive music and caters to younger Hispanics. To the extent that they are newcomers to this country, members of ethnic demographic groups will provide markets for a wide range of basic products—housing, motor vehicles, furniture, appliances—and for a full range of personal services.

But businesses must prepare themselves to capitalize on these opportunities, says Peter Francese of American Demographics: "Marketers have no choice but to think in multicultural terms." That means, he explains, an understanding of the group's culture and its economic and family values.

Metropolitan Life Insurance Company, for example, has more than 400 Spanish-speaking sales representatives and nearly 500 who speak Asian languages, says the company's director of marketing, Rubin Lopez. He advises smaller firms with limited advertising budgets to advertise in local, ethnic-language newspapers.

That is just one of the many techniques, some simple, some highly complex, for reaching the markets of the 1990s. While most will require new attitudes and new approaches, they will not necessarily require new lines of products or services.

"It's not necessarily a matter of fixing a product or service," says market researcher Harrison Hickman. "It's more a matter of repackaging it or reexplaining to people why it fits their needs."

Achieving business success against a background of changing demography doesn't require extensive and expensive market research, and it doesn't mean reinventing the wheel, he says. "If someone is providing good banking or health-care service, there's no reason to go in there and tell him how to change it. But he can rethink his company's position vis-à-vis the way the demography of this country and the demography of his particular markets might be changing.

"The main outlay a business has to make is being open-minded about what's going on around it and not being locked into the old way of doing things. Most businesses are trying to get widgets in the box and out the door.

"The hardest thing for a business person to do is to get out of the habit of relying on the same old market stereotypes, especially if you've been successful." NB

To order reprints of this article, see Page 60.

Inexpensive Data Sources

Listed here are a few of the many helpful sources that small companies can tap for demographic data. In most instances, information is available for a modest fee.

Federal Government
Bureau of the Census
U.S. Department of Commerce
Data User Service Division/Customer Service
Washington, D.C. 20233
(301) 763-4100

The Census Bureau has a variety of resources that businesses can use to learn the demographic and socioeconomic characteristics of population groups.

While the Census Bureau tabulates data that can range in scope from the whole nation to a city block, most data below the state level can be obtained only from the decennial census, says Cynthia M. Taeuber, one of the agency's experts on population trends.

Surveys conducted in the years between censuses cover relatively small samples of households, and they furnish data only for the nation, regions or, at most, for large metropolitan areas.

The next decennial census will take place in 1990.

State Governments
Each state maintains its own data center, which disseminates federal census data to businesses and individuals within the state.

These centers often issue their own tabulations that have been tailored to reflect local needs.

You can obtain a free list of the addresses of state data centers by calling the Census Bureau's customer-service number, (301) 763-4100.

Useful Publication
The Insider's Guide to Demographic Know-How takes you step-by-step through the basics of demographic analysis—why it is important, how to analyze the numbers and how to buy data and research services.

The 246-page guide details 600 federal, state, local, nonprofit and private sources of demographic data and related information.

The publication also includes an extensive list of subject contacts, including phone numbers of more than 300 specialists at the Census Bureau and other federal agencies.

Edited by Penelope Wickham, the book is published by American Demographics Press. It sells for $49.95 postpaid and can be ordered by calling 800-828-1133.

COMMENTARY

Help The Economy With A "K.I.S.S."

By *Warren T. Brookes*

When I was in the advertising business, a television producer gave me some good advice about a commercial campaign we were constructing.

He wrote in big bold letters "K.I.S.S." I asked him what it meant, and he replied, "Keep it simple, stupid!"

The new administration and Congress should paint these letters somewhere prominent on Capitol Hill as they develop the economic agenda for 1989 and the years beyond.

When it comes to a simple approach, they could do a lot worse than accept the three-point economic plan proposed by the prestigious Shadow Open Market Committee of the Bradley Policy Research Center at the University of Rochester. That plan recommends that:

"First, the Federal Reserve should reduce the growth rate of the monetary base over the next five years to 3 percent. Ultimately this will reduce inflation to zero.

"Second, the United States should cease and desist from trying to manipulate foreign exchange rates and from pressuring other nations to manipulate them.

"Third, Congress and the new administration should hold the rate of increase in total nominal federal expenditures to an average of no more than 3 percent a year. If such a policy is adopted, the budget can be balanced without an increase in taxes."

In fact, this "3 percent solution" is exactly the kind of simple dietary medicine that the U.S. economy needs—one that would let the private sector alone long enough to digest the vast tax, trade and regulatory changes adopted during the Reagan era, not to mention the wild exchange-rate fluctuations. It would also free us to go on retooling to meet the more competitive world markets in which we now must operate.

As part of that process of "letting us alone," the major economic issue that Congress and the President must now deal with is the budget deficit, which is government's greatest single interference in the domestic and international capital and credit markets.

While the deficit's dangers have been overstated, they are nonetheless psychologically debilitating and a genuine economic drag on the nation's basic savings rate. They also undoubtedly contribute somewhat to the merchandise trade deficit by sucking in foreign capital, which must then be repatriated in orders for foreign goods.

In turn, financing the budget deficit inhibits the Federal Reserve Board's pursuit of a consistent monetary policy geared not to "fine-tuning" the U.S. economy or manipulating exchange rates but to checking inflation.

But, the deficit is not a problem serious enough to require such draconian solutions as new or increased taxes that could be economically and fiscally self-defeating. The last 20 years have proved conclusively that Congress never raises taxes without raising spending even more. After all, lawmakers see themselves as elected to provide pleasure, not to inflict pain. Any tax increase would automatically reverse the strong progress made against spending since 1985.

The new administration and Congress should paint K.I.S.S. ("Keep it simple, stupid!") somewhere prominent on Capitol Hill as they develop the economic agenda for 1989 and the years beyond.

Warren T. Brookes is a nationally syndicated columnist on economic issues.

Excessive concentration on the deficit has obscured the fact that federal spending as a share of gross national product has fallen from 24 percent in the 1984-1985 fiscal year to a projected level of 21.8 percent for fiscal year 1989, the lowest level since 1979.

It is that downward spending trend that is crucial to the nation's economic health. It is no accident that the two nations with the lowest federal-spending burdens, the United States and Japan, have the best overall economic growth and competitiveness.

It is also important to understand that economically speaking, a balanced budget that represented 24 percent of gross national product would be much less favorable than a budget that represented 21 percent of GNP and a deficit equal to 2 percent of GNP.

If the Federal Reserve does not continue to tighten credit (as it has been doing for the past six months), the U.S. economy will continue to generate annual revenue growth of 6 to 7 percent, more than enough to allow the deficit to be wiped out simply by holding spending growth to 3 to 4 percent a year.

The K.I.S.S. rule of deficit reduction is that every percentage point by which spending grows less than revenues grow is worth $10 billion in deficit reduction. Thus, if Congress holds spending growth to 3 percent while revenues grow at 7 percent, the deficit will go down by $40 billion every year. It would take only three years of such a "3 percent solution" to cut the deficit to harmless levels. This would lower short-term interest rates below 5 percent and sustain the six-year recovery indefinitely.

As Beryl Sprinkel, the outgoing chairman of President Reagan's Council of Economic Advisers, put it last spring, "Recoveries don't die of old age. They die of inappropriate policies."

Unfortunately, this is not the view of the National Economic Commission (NEC), the bipartisan group created by the President and Congress to recommend ways to eliminate the budget deficit and maintain economic health. The NEC will try to stampede the new President into the "inappropriate policy" of raising taxes by rushing the commission's report into print on December 21—three months before it is due, and on the same day that the President-elect's two appointees are sworn in!

The business community should let the NEC know that it wants a "3 percent solution," and that if the NEC and Congress did nothing more than put the U.S. budget deficit on a credible downward course without new taxes, the economy would continue to expand. NB

Family Business

Don't Leave Confusion As Your Legacy

By Sharon Nelton

A reader called to say she needed advice. "I'm so confused," she told me. Her husband was seriously ill. She was his second wife, and although she knew that her husband's personal holdings would come to her after his death, she did not know what would happen to his business.

Her husband had always been reluctant to tell her what would become of it, and now his lawyer seemed even more reluctant. Yet now, trying to hold things together, she found herself handling the bank chores and appearing at the business during times she could get away from her full-time job elsewhere. The company's 25 employees were all "doing the best they could," she said, but they were looking to her for decisions. Her husband was no longer fully functioning mentally, his death was imminent, and my caller had received power of attorney.

An unusual story? No, not in the crazy world of family business, where, when things go awry, they seem to go excessively awry.

In the case of this family, the issues should have been ironed out long before reaching the crisis stage. The husband should have involved his wife in the planning of his estate, including the disposition of the business. Or if he couldn't bring himself to include her in the planning, he at least should have told her his plans and should have made it clear that the attorney was free to discuss those plans with her.

It's easy for me to say, too, that the wife should have demanded long ago that her husband sit down and tell her what was going on. But when people are being secretive, they can really dig in their heels. My guess is that she was afraid to force the issue for fear of a bitter argument or even of losing his love. Most likely, she didn't want to be thought of as a gold-digging wife.

It is mystifying that people who are smart enough to start a business and make it grow are also often so—yes—stupid that they neglect to plan for its transition to other hands. Well, some experts would disagree with me and say it's not mystifying at all—entrepreneurs typically think they will last forever. Avoiding planning is a way of avoiding death. But it doesn't work that way. Not for anybody.

And it seems to me that if you are a business owner and you love your business and you love your family, you will sit down with them and with your attorney, your estate planner and other advisers and you will decide together what should become of the business.

If you love your business and your family, you will want to see to the future of both of them and not leave a mess behind. And you will not want your spouse to call me someday and say, "I'm so confused."

Sharon Nelton, a Nation's Business *senior editor, specializes in writing about family firms. She is the author of* In Love and In Business *(John Wiley & Sons, New York). See also "When Widows Take Charge," Page 40.*

Letting Go: An Act Of Courage

By John L. Ward and Laurel S. Sorenson

At 61 years of age, Larry Barr has decided to step back from his Chicago-based trucking company. His four sons deserve a chance to run Barr & Miles, Inc., he reasons. Yet the move is tough. Barr struggles to fill his extra time. He hasn't found any activity he likes as well as running his company.

He is nonetheless resolved to make the effort to withdraw. "I want to keep my hands out of the business, if I can," says Barr, who still spends part of his days at Barr & Miles. "The boys should have the opportunity."

Other business owners will sympathize with Barr. Letting go is the most difficult move they can make. Intellectually, most know it's right. Yet emotionally, it is very painful. And for legitimate reasons! Entrepreneurs are hands-on, action-oriented people for whom the idea of staying home is not appealing. They identify closely with their businesses. And changes that their offspring bring to those businesses sharpen the sense of loss.

As a result, many entrepreneurs never truly let go. They walk away for a few years and then return in full force.

Yet this reaction to retirement can severely depress the business. An owner who can't retreat runs the risk of dampening the firm's spirit. This may lead to declining sales and loss of profit. In the worst cases, sons and daughters leave the business.

In contrast, stepping back successfully brings great benefits. It raises the company's hopes. It casts a vote of confidence in the future. And it can lead to a new life for the business owner.

Since his "retirement" in 1985, James Miller, 58, has become president of his

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family businesses. Laurel S. Sorenson is a Chicago-based writer. They wrote the book Keeping the Family Business Healthy *(Jossey-Bass, San Francisco).*

The changing of the guard is as hard a task as any that a family business encounters. In this roundup, experts suggest that you plan it carefully, do it courageously and stick to it firmly.

Withdrawing from his Chicago trucking company is tough, but Larry Barr is determined to give his sons, from left, Larry, Tom, Jim and John, the chance to run it.

PHOTO: RICHARD DERK

trade association and a national lecturer on motivation and marketing. He and his wife, Joan, who together built Miller Business Systems, Inc., in Arlington, Tex., into a company with $50 million in annual sales, have taken time for world travel. Miller says he retired early because "I wanted to enjoy what I worked for. Besides, my successors are as capable as I am."

If you are a reluctant retiree, remember: Letting go is an act of courage. You, the owner, are going from the known to the unknown. It is an act of faith, a belief that the incoming generation will do well. And it is an act of generosity—a gift to members of that generation, who will have the same opportunities that you had to make their mark. NB

How To Retire And Stick To It

How can you plan for a successful retirement, one that you'll stick to? A few suggestions:

Start early. Preparing for succession can take years—as many as 10, or even more. This includes training successors so that all are confident in their abilities to handle their jobs, and establishing financial security for you and your spouse.

Start active outside interests. Owners who are eager to do "something else" are most likely to let go successfully. Such interests might include starting another business, teaching, or entering public service.

Reflect upon your parents' example. How your parents handled retirement will influence your own attitudes. Their experience serves as a radar that guides you down the right—or wrong—path. If your father died unhappily too soon after retirement, for instance, you will likely have a harder time letting go of your company. It won't be impossible. You'll just have to work harder sooner—to develop outside interests.

Set a target date. Don't say, "I'll retire in three to five years." Then retirement will always stay comfortably ahead of you. Instead, set a date, such as "Jan. 1, 1990." And make the date irrevocable. This will prevent your return later.

Mark Your Calendar

January 22–25, Longboat Key, Fla.

"Chief Executive and Senior Officers of Family-Held Businesses," a program for those responsible for the future of a family business. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, 426 Vance Hall, The Wharton School, University of Pennsylvania, Philadelphia, Pa. 19104; (215) 898-4470.

February 5–9, Longboat Key, Fla.

"The Next Generation of Family Members in Family-Held Business," a seminar directed toward young adult family members and their spouses. Contact the family-business division of the Snider Entrepreneurial Center at the address above.

February 15–17, Corvallis, Ore.

"Managing Your Family-Owned Business," an annual conference for family members and nonfamily employees. Featured speakers are John L. Ward, professor of free enterprise at Loyola University of Chicago and a *Nation's Business* columnist, and David Bork, a nationally known family-business consultant. Contact the Family Business Program, College of Business, Oregon State University, Corvallis, Ore. 97331; (503) 754-3326.

June 14–16, Cleveland

"Managing Succession Without Conflict," a seminar on management transition in the family business for business owners, spouses, successors and key managers. Write or call the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44142; (216) 442-0800.

Direct Line

Help for readers on exporting to China, buying American and finding user-friendly computer consultants.

Hair Care For China

As a small but firmly established manufacturer of hair-care products, we enjoy a very respectable U.S. and Canadian market share. We are now seeing a tremendous growth in our export business, and we wish to pursue the largest prospective customer of all—China. Where do we go for contacts?
M.L., Eagan, Minn.

Start with the U.S. Department of Commerce's district office in Minneapolis. An adviser in the U.S. and Foreign Commercial Service office, part of Commerce's International Trade Administration, will provide you with business reports on China, information on trade missions and names of people to contact for help in exporting to that market.

The district office is at 108 Federal Building, 110 South Fourth Street, Minneapolis, Minn. 55401; the phone number is (612) 348-1640.

B&Bs For Business Travelers

As the person in charge of travel arrangements for the marketing department of my company, I was interested in your August article on bed-and-breakfast inns. Is there a listing of B&Bs that cater to business travelers?
S.R.L., Buffalo

Among the 56 bed-and-breakfast guidebooks known to the American Bed and Breakfast Association, none is written specifically for business travelers. But descriptions in the guides make it possible to choose B&Bs that would be suitable for such travelers. Many of the guides are available in libraries and bookstores.

In addition, some state tourist offices now have bureaus that specialize in information on B&Bs.

The American Bed and Breakfast Association publishes four regional guides covering the Northeast, Southeast, Central and Western states. The guides cost $6 apiece and can be ordered from the association at 16 Village Green, Crofton, Md. 21114; (301) 261-0180.

Organizing To Buy American

After reading your article on Sam Walton [April], I became interested in organizing a nonprofit "Buy American" as-

ILLUSTRATION: WILLIAM COULTER

sociation that would attempt to put American suppliers and buyers together. Would such an organization need to be incorporated? Could you list some possible sources of help?
R.S., Sierra Madre, Calif.

The American Society of Association Executives, whose members primarily are managers of nonprofit organizations, has an extensive collection of publications on all facets of association management.

While it has fewer resources on how to start an association, the ASAE does offer a publication that contains an overview of structuring a nonprofit organization. It is called *Fundamentals Of Association Management: Organization*, and it is available for $25 for members or $40 for nonmembers, plus $5 for postage and handling. Nonmembers must send a check or money order with their request.

For a copy of the book or a free publications catalog, write to the Publications Office, American Society of Association Executives, 1575 I Street, N.W., Washington, D.C. 20005.

No-Strings Advice

I'm interested in acquiring an integrated computer system for my small manufacturing firm for purposes such as accounting, payroll and job costing. Is there a source of information that isn't a salesperson on commission?
J.G., Troy, Mich.

The Independent Computer Consultants Association offers just what you need.

Through its chapters across the country, the association acts as a referral service, putting people who have computer questions in touch with professional consultants who have answers. You simply explain your computer needs, and the chapter alerts its members who handle your type of work. Those who are interested can obtain your number through the chapter office.

For a referral, call the Detroit chapter office at (313) 879-2244. The national office, based in St. Louis, Mo., can be reached at (314) 997-4633.

Produce Growth

I have just started a small produce-growing business. Could you tell me where I could obtain a trade magazine for this field?
P.C., Thornville, Ohio

Write or call the following associations for subscription information about their trade publications:

- Fresh Produce Council, 1601 East Olympia Boulevard, Suite 360, Los Angeles, Calif. 90021; (213) 629-4171. It publishes *FPC Digest*, a monthly magazine.
- American Greenhouse Vegetable Growers Association, P.O. Box 20228, Columbus, Ohio 43220; (614) 459-1498. Its *Greenhouse Grower* newsletter is published quarterly.
- Produce Marketing Association, 1500 Casho Mill Road, P.O. Box 6036, Newark, Del. 19714; (302) 738-7100. The organization's publications for produce marketers are *PMA Food Service Guide To Fresh Produce*, *PMA Directory Of International Trade* and the biweekly *PMA Newsletter*. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

MANAGING YOUR BUSINESS

One Size Doesn't (Bene)fit All

Changes in the work force have changed the assumptions about benefit plans, creating a need for flexibility.

ILLUSTRATION: NICK AGNELLO

Each year more small businesses implement flexible benefits programs as a way to address both the rising costs of benefits and the escalating expectations of employees.

Employee benefits today equal, on average, 39 percent of wages and salaries. And that percentage could easily go higher. Rapidly rising health-care costs, the major component of most benefit plans, pushed employers' group health rates up by more than 20 percent in 1988.

Meanwhile, a changing work force has broken the traditional mold used to design benefit plans, creating a need for more flexibility. The average employee no longer is a married man supporting a wife at home and dependent children.

In fact, women make up nearly 45 percent of the work force today. And the fastest-growing group of new workers during the 1980s has been mothers with school-age children.

While flexible benefits plans differ from company to company, the premise of each program is the same. In traditional plans, the employer decides which benefits each employee receives. As costs escalate for benefits such as health and life insurance, the employer typically absorbs the increases. In flexible plans—also referred to as cafeteria plans—the employer determines how much will be spent per employee and specifies a range of options. Employees then decide which benefits to take. They also have the option of contributing additional money to purchase expanded coverage.

Containment of overall benefits costs is possible because the employer retains the option of shifting increases in the cost of coverage to the employees.

Employers like the flexible approach because, while putting a ceiling on costs, it helps them project a caring, responsible image that can boost employee loyalty and the company's recruiting power.

Employees like this approach because they can tailor the level and type of benefits they receive to their individual needs. From a palette of varying benefits at one company, for example, a single mother might prefer to spend some of her benefits allotment on child-care reimbursement, while an older worker might spend some of his dollars on increased contributions to a pension fund.

Small companies have been slow to adopt the flexible-benefits approach for a number of reasons, including uncertainty about start-up costs and lack of economies of scale.

There are, however, a number of resources available to help small firms answer questions about flexible benefits plans. (See "For More Information," on Page 36.)

Here are answers to some of the most common concerns:

Will instituting flexible benefits cause my insurance premiums to increase?

Letting employees choose among types of insurance and levels of coverage may cause insurance rates to go up. After all, when people are invited to choose those benefits they think they will use, they are more likely to use their choices to the fullest, thereby causing increases in the average rates of usage for various kinds of coverage. While this is a legitimate concern for

any company, there are a number of ways to reduce the risk so that your overall cost for insurance coverage does not increase. A plan that is designed properly can minimize the concern. For example, you might give all employees a core level of coverage and let them upgrade any part of their plan with their own contributions.

What if my company is very small?

Employers with fewer than 50 employees may have some difficulty finding insurance carriers who will allow less than 75 percent of their employees to take a given kind of insurance. One possibility is to make all benefits except insurance flexible. That means, for example, requiring health insurance while allowing employees to choose among options such as tax-free child-care reimbursement accounts or employer contributions to 401(k) retirement plans. Another possibility is to join a consortium of small employers and purchase flexible benefits as a group.

What if my sole objective is cost containment?

Many employers look into flexible benefits plans primarily because they are interested in containing costs. But you may be disappointed with immediate results if you are interested only in cost containment. Initial implementation costs, insurance-rate increases and additional administrative costs may or may not be offset by long-term cost containment.

How much will it cost the company to implement a flexible benefits plan?

Depending on your company's size, on the method you use to institute flexibility and on the plan options you choose, the total investment can be nominal or substantial. Contact your insurance provider or a benefits consultant for assistance.

Will I have to hire a new employee to administer the plan?

While a flexible benefits plan does require more administrative effort, most companies with fewer than 250 employees have been able to handle the extra tasks without hiring anyone new.

What if the company's present benefits plan seems satisfactory?

If the present plan meets your company's objectives, if employees are reasonably satisfied and if your costs are not increasing substantially, you may not want to make any changes. But since flexible benefits so often have proved to be effective, and since benefits consultants claim the number of flexible plans will increase dramatically in the 1990s, it may be worth a closer look to see if flexibility holds any advantages over your present plan. NB

This article is adapted from a 139-page handbook for growing companies titled Flexible Benefits: How to Set Up a Plan When Your Employees Are Complaining, Your Costs Are Rising, and You're Too Busy to Think About It. *The handbook is published by Catalyst, a New York research and advisory organization, and is available from Catalyst at the address in the accompanying box. The price is $55 for corporate purchasers and $35 for individuals and nonprofit organizations.*

For More Information

The following organizations can provide additional information on flexible benefits programs:

Catalyst
250 Park Avenue South
New York, N.Y. 10003
(212) 777-8900

Council on Employee Benefits
c/o Goodyear Relief Association
1144 East Market Street
Akron, Ohio 44316
(216) 796-4008

Employers Council on Flexible Compensation
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MANAGING YOUR BUSINESS

Your Worker's Crime May Make You Pay

By Jane Easter Bahls

When an Oregon construction company sent a worker to a customer's home on a routine remodeling chore, it had no idea that the employee would commit a crime—or that the firm would wind up in court accused of liability for the worker's misdeed.

After leaving the customer's home to draw up plans, the employee stopped first at his boat to invigorate himself for the task by taking a hallucinogenic drug. He then saw a house where he mistakenly thought a former friend was living, broke in and sexually assaulted a woman. The victim sued the company.

Though a lower court threw the case out on the ground that the connection between the employer and the crime was too tenuous, the Oregon Supreme Court reinstated the case this year—in part because the employee allegedly "ingested the drug to enable him to perform work for the corporation." The case is still pending.

Bizarre as it may seem, it is not an isolated case. In Florida, for example, a condominium manager hired a maintenance man after only a cursory check of the applicant's references. The employee used his pass key to enter one of the company's condominiums, and he attacked a woman there. The victim sued the employer, contending the company failed to discover that the worker had been under psychiatric care and had been convicted of crimes that included breaking and entering and assault with intent to kill.

Florida's appellate court ruled that the employer could be held responsible for the victim's injuries because it had failed to inquire into the applicant's criminal record and medical history.

In an emerging legal trend, employers are now being held liable for their employees' wrongdoing even when the crimes appear to have no connection with the workers' jobs.

Though courts traditionally have held employers liable for employees' misdeeds, generally it had to be shown that when the crime was committed, the employee clearly was acting within the scope of employment. But if actions were seriously criminal, the employer usually could argue successfully that the company was not liable because the crimes were not committed in connection with the job.

Jane Easter Bahls, of Missoula, Mont., writes about legal and business topics for national publications.

ILLUSTRATION: JERRY DADDS—EUCALYPTUS TREE STUDIO

In recent years, though, courts increasingly have held the employer responsible for the employee's wrongdoing regardless of whether it fell within the scope of the job. Often, the injured party advances the legal theory of "negligent hiring," claiming the employer knew, or should have known, that the person hired was dangerous. The employer can be held liable, in effect, for failing to discover warning signs in the employee's past.

Many believe the trend is attributable partly to judges' and juries' increased emphasis on compensating victims in addition to determining guilt. Though the employer may be only remotely at fault in the employee's crime, the person with the "deep pockets"—most likely the employer—has to pay.

"It's a little easier to prove negligence than it was 20 years ago," says Richard Epstein, professor of law at the University of Chicago. Epstein says courts are requiring less evidence of actual knowledge of the risk, asking instead whether the employer should have discovered the risk.

The subtle change in interpretation has caught many employers unaware. "It's very difficult for people in business to recognize shifts in the law that are not marked by legislation," Epstein says. "It's hard for a firm to keep on top of it."

Clearly, the employer should screen job applicants as carefully as possible, both to protect the public and to avoid losing a negligent-hiring suit. This is particularly true for employees who are likely to come into contact with the public or to be entrusted with money or property belonging to others.

Hospitals, hotels, schools, recreational facilities, religious institutions and other employers who invite the public onto their property must be particularly careful about hiring. Courts have found that hospitals enter into an implied contract with their helpless patients, a contract in which the hospitals assure they will hire competent and reliable workers.

According to Allen Shub, management consultant with Shub & Associates in Buffalo Grove, Ill., most companies' background screening is insufficient. Many have no one trained to do it properly, and the time involved in waiting for a criminal check or license confirmation may seem wasted.

Unfortunately, the quickest way to check an employee's background—calling the references on the application—

A company can be liable for an employee's crime if the employer knew—or should have known—the worker was dangerous. In effect, your firm can be penalized for ignoring doubts about an applicant's past.

is not always the most effective. "The concept of reference checking is flawed," says Shub. He maintains that when applicants list references, they "only give names of people they expect to give them a favorable reference."

In a Minnesota case, an apartment-complex tenant sued the owner after being assaulted by the complex's manager, a parolee with a criminal record. The manager had supplied two references that checked out fine—and later were found to be his mother and his sister. Like many job applicants, the apartment manager simply had not given names of anyone likely to tell the truth about him. The woman was awarded $90,000 for injuries.

Further, Shub notes, some people will not give uncomplimentary references because of fear that they will be sued for libel. Increasingly, companies are trying to stay out of trouble altogether by instructing their personnel directors to disclose nothing about a former employee except the person's job title and dates of employment.

Such scanty information is not much help to an employer trying to find out whether an applicant is trustworthy. Nor are state laws that make it illegal to discriminate against employees on the basis of a criminal conviction unless the conviction might have a bearing on the job. In some states it's illegal to ask about criminal convictions unless they would bear directly on the job. A person applying to drive an armored car, for example, could be asked about a robbery conviction.

Epstein notes that employers sometimes feel obliged to hire an applicant to comply with the laws against discrimination, yet they risk being sued if the employee later commits a crime. "The original theory of employer liability was that you had total control to hire and fire," he says. "Now you don't have the degree of control, because of disclosure laws and discrimination laws."

Nonetheless, legal experts say there are safeguards you can adopt in your hiring practices. Among them:

- Make sure your personnel director is a shrewd judge of character. "Companies don't always have a trained person to judge character," says management-consultant Shub. Supervisors who don't know what to look for may make some costly hiring mistakes.
- Check the applicant's background carefully. If a license is required for the position, make sure the applicant is indeed licensed. If you see a gap in the applicant's record of employment or military service, ask why. Check several references, asking each why the applicant's employment ended.

If a reference is willing to talk, ask whether the applicant is given to drunkenness, drug abuse or violent behavior. Ask if the applicant is honest, reliable, emotionally balanced. Keep a record of what references tell you in case questions arise later concerning how much you knew about the person when he or she was hired.

- Consider administering a test of honesty and integrity. Conceived as alternatives to the polygraph examination, these paper-and-pencil tests are designed to gauge a person's integrity and reveal any inclination to steal or commit violence. Major published research shows that two integrity tests are reliable: the London House Personnel Selection Inventory (London House, Inc., 1550 Northwest Highway, Park Ridge, Ill. 60068; 312-298-7311) and the Reid Report (Reid Psychological Systems, 200 South Michigan Avenue, Chicago, Ill. 60604; 312-938-9200).
- Check criminal records, if state law permits. Such checking is good insurance against any claim that an employer should have known about an employee's criminal record. Don't hire anyone with a criminal conviction that bears on the job you are trying to fill. This caution is particularly important if the employee would work with the more vulnerable in society, such as children in schools, residents of nursing homes or patients in hospitals, or if the job calls for meeting people in their homes. Ask your attorney if your state permits inquiring into police records without the applicant's permission.
- Maintain adequate insurance in case you lose a negligent-hiring lawsuit. A policy that excludes "liability caused by misappropriation, secretion, conversion, infidelity or any other dishonest or criminal act on the part of the employer or agent" would be useless if a court holds your company liable for an employee's crimes.

Careful screening of applicants can minimize the chances that one of your employees will commit a crime on the job. "The point people are making in their suits," Shub says, "is that the serious consequences could have been avoided." NB

To order reprints of this article, see Page 60.

MANAGING YOUR BUSINESS

When Widows Take Charge

By Sharon Nelton

If she had it to do all over again, says Seona T. Baldwin, she would become more involved in her husband's business earlier and would ask more questions.

But she doesn't have it to do all over again. George Baldwin died in an automobile accident in 1981, and two years later she stepped in to run Baldwin Sanitary Service, Inc., the Portland, Ore., trash-collection company that her husband had founded in 1971. She knew little about the business, and she thought her involvement in it would be only temporary. She has been running it ever since.

Widows "are a tremendous force in the survival and growth of family businesses," says Matilde Salganicoff of the Family Business Consultancy in Philadelphia.

At first a widow may take over a business to preserve its founder's vision or because it offers the best livelihood for her family. Or she may see herself as the caretaker of the business until it can be passed to the next generation.

Joyce Signer, in Corvallis, Ore., owns Signer Motors, Inc., a General Motors dealership that her husband was buying when he died of a heart attack in 1970. Signer, then a housewife and former schoolteacher, used to tell herself, "If I can just keep this until my son is out of college and old enough to take over!" Her son was 19, and she also had two younger daughters to support.

In Detroit, Helen Keene McKenna's leadership of McKenna Industries was described in a 1956 story under the headline, "Fulfills Her Late Husband's Dreams." Three years earlier, after her husband, Patrick, was killed in an automobile accident, she took over the company he had founded in 1952. "I wanted to do it for him," says McKenna. At the time of her husband's death, her daughter was 14 and her son was 8. The company, now in Troy, Mich., makes production models for the automobile, aircraft and aerospace industries.

Rosemary S. Garbett, president of

PHOTOS: RICK RAPPAPORT—BLACK STAR (ABOVE); BILL DEKAY (BELOW)

Being thrust into male-dominated industries did not stop Seona Baldwin, above, or Helen McKenna, right. Both have made successes of companies started by their husbands.

Often, the widow who takes over her late husband's business discovers she can achieve his goals for its success. Here, experts suggest how a woman can become ready to take the reins.

Los Tios Mexican Restaurants in Houston, was a 40-year-old housewife with four teenage children when her husband accidentally shot and killed himself in 1976. Garbett learned she could get only $800,000—half the book value—for the three struggling restaurants he left behind and that she would have to pay off debts out of that. So she decided that keeping the restaurants and making them go would offer her family a better livelihood than living off the interest from the money she would get by selling the business.

Women are often the "supporters and enhancers" of their husbands while the men are still alive, says Salganicoff, but they are more assertive and aggressive after they become widows. Under their leadership, she adds, the businesses often flourish because these women, though generally conservative, are open to new ideas. And they often come to realize that they are no longer running the businesses for their husbands or even for their children.

"That wonderful business I was saving for my son is still mine, and my son is a Buick dealer in Fremont, Calif.," Signer said recently at a family-business conference at Oregon State University.

McKenna Industries had five employees when Helen McKenna took over. She still says she doesn't know how to read a blueprint, but the business today comprises five companies, employs 150 and does $11 million in sales annually. Son Mike is now president and CEO, but McKenna stays on as chairman.

"When I took over the business, I was scared and had no confidence at all in my ability to do anything," recalls Rosemary Garbett. Her husband had occasionally "allowed" her to be a cashier at the restaurants, she says. But she also had done the bookkeeping. "I knew how every dollar was being spent. I knew every debt and how it was or was not being paid."

She began to tighten controls to keep money from flowing out the door. She instituted other measures, such as centralized purchasing to hold down costs, and a centralized kitchen to assure product quality and consistency in all the restaurants.

PHOTO: ROBB KENDRICK

Rosemary Garbett of Houston took her late husband's three debt-ridden Los Tios restaurants and built them into a debt-free chain of 10 with annual sales of $7 million.

"The original debt-ridden three Los Tios restaurants have grown to 10 successful, debt-free restaurants," says Garbett. She employs 375 people and has increased the company's annual sales to over $7 million from $2.5 million. The once-frightened homemaker has twice been honored by the city of Houston with a "Rosemary Garbett Day."

Taking over the businesses wasn't easy for any of these women. Baldwin gave up an 18-year telephone-company career to run Baldwin Sanitary Service, and she did so only after a buy-sell agreement transferring ownership to an employee fell through, and efforts to find a manager failed. The company was losing money when she took charge, but she turned it around.

Some of Los Tios' key employees quit to work for competitors, and a bank that had done business with the firm for years refused Garbett a loan. But what really put steel into her spine were the put-downs she got from people who thought she couldn't succeed. Creditors, suppliers and landlords feared they wouldn't get paid, and Garbett heard comments such as, "If she doesn't sell, we'll have to eat a lot of enchiladas to get our money back."

Joyce Signer found that her husband's will was one of her biggest obstacles. It provided that the business be sold and the proceeds go to a trust, a plan that might have been practical had she not decided she wanted to run the business herself. She had to go to court to have the will set aside.

Yet a widow may find encouragement to step in and run her late husband's company. It was a family friend who first suggested to Signer that she could take over the business. And while McKenna found that some purchasing agents didn't want to deal with her in what was then an all-male field, she encountered many more who went out of their way to help.

Most family-business owners are men, and women tend to outlive men by about seven years. So it makes sense for a woman to consider ahead of time what will happen to the business after her husband dies. Experts on family business offer these tips:

Do succession planning, but don't lock yourself in—or out. Many wives do not realize, until they become widows, that running a business will be their best choice. She would not have been her husband's choice of a successor, says Signer. And if he had had a buy-

sell agreement arranging for someone else to buy the company upon his death, she would not have the business today. "Keep all your options open," she advises.

Think of yourself, adds Jane Siebler, assistant professor of management at Oregon State. She urges wives to consider not only the founder's dreams for a business but their own dreams as well. And when it comes to determining who should succeed the owner, Siebler suggests, a wife should consider herself as a choice.

Don't underrate your skills. Widows who succeed at running the family business are often self-effacing, says Salganicoff. "They will say, 'I was lucky. I had good support. My brother-in-law helped me. My lawyer was great.'" They call on a lot of resources, says Salganicoff, not recognizing "that to get adequate help is a sign of mature management."

Garbett says she became a success "by transferring the homemaker's rules to business ... A mother who manages a household with a tight budget and raises a family, while saving a little and paying off creditors, can do what I've done."

Be prepared to seek advice, but also be prepared to go against it. When Garbett decided not to sell Los Tios, she did so against the recommendations of her accountant and her lawyer. Siebler says, "If your intuition is telling you one thing and your advisers are telling you another, you can trust your instincts."

Get involved in the business early. Seona Baldwin advises women to discuss the business with their husbands and to ask questions if their husbands are "open-minded enough" to share information.

The presence of wives working in a family firm helps guarantee the continuity of the business and makes it easier for children to gain access to it, according to Salganicoff.

Husbands often are ambivalent about having children in the business, and older men may feel they are in competition with the younger generation. But women, she says, really want the children in the business.

So Salganicoff urges wives to become actively involved in the company. "It's good for their husbands, it's good for the business, and it's good for the family." NB

To order reprints of this article, see page 60.

Preparing To Step In After Your Spouse

If your husband or wife is a business owner and dies or becomes disabled, the survival of the business may depend on your having vital information.

The following is excerpted from the "Spouse Survival List," prepared by the Family Business Program at Oregon State University. Have your spouse fill out the information, and go over it together to make sure you understand every detail.

For a copy of OSU's complete checklist of information that a spouse should know, send your name and address to: Spouse Survival List, Family Business Program, College of Business, Oregon State University, Corvallis, Ore. 97331, or call (503) 754-3326.

Date: ________
Owner's full name: ________
Birth date: ________
Social Security Number: ________
Full family business name (list additional family businesses as appropriate): ________
Address: ________

Office telephone: ________
Fax number: ________
First employee to be phoned: ________

Position in the business: ________
Office telephone: ________
Home telephone: ________
What should he/she be told? ________

Important Documents
Attorney's name: ________
Office telephone: ________
Home telephone: ________
Do you have a will? When was it last updated?
Location of will: ________
What are the essential terms of your will?

Is there any kind of buy/sell agreement for the firm?

Will your ownership in the business be transferred to me? If not, how much can I expect to receive for your share of the business? ________
How and when? ________

Is there any legal documentation that would help establish the value of the business? ________

Accountant's name: ________
Office telephone: ________
Is the business financially sound? What kinds of financial commitments have been made on behalf of the business? ________

Does the accountant have personal financial statements for us? If so, for what time period? ________

Where are our most recent tax returns filed? ________

Banker's name: ________
Office telephone: ________
Bank account numbers and locations:
Personal checking: ________
Personal savings: ________
Business checking: ________
Other: ________
What type of estate-planning mechanisms do you have in force? ________
Will I have access to cash at the bank? At the business? Whom should I contact? ________

Insurance And Retirement
Insurance agent(s): ________
Office telephone(s): ________
Type of coverage: ________
Do you have key man life insurance? If so, how much? Who is the beneficiary? ________

Do you have long-term disability insurance? If so, for how long? ________
Are you eligible for full Social Security? What other type of retirement plan do you have? ________

Other Investments
What other investments do we have besides our family business(es)? ________

Obituary And Funeral
What media should we notify? ________
What one special request would you like to make regarding your funeral? ________

Leadership Succession
If you have identified a successor for yourself, who is it? What should he/she be told at this time? ________

If you have not identified a successor, is there anyone within the business who could run it on an interim basis? ________
Whom, among the employees, do you most trust me to confide in and to ask for advice? The least?

Strategies
What is the greatest opportunity you are facing?

The greatest risk? ________
What deals are in the making? ________

Have you entertained any buyout offers? If so, from whom? ________

Last Words
If you had the opportunity to give me some advice, what would it be? ________

LESSONS OF LEADERSHIP

Looking To The Long Term

Discount broker Charles Schwab knows that a bleak present often gives birth to a bright future.

By Michael Barrier

Charles R. Schwab looks tired. This afternoon, as he sits in his office in the San Francisco tower that bears his name, he is not the cheerful, youthful figure who smiles out from advertisements for his brokerage firm. He is instead a weary middle-aged man (he is 51) who has been reliving an unpleasant experience. It is October, and by chance this interview has fallen amid interviews prompted by the first anniversary of Black Monday—Oct. 19, 1987, the day that the Dow Jones Industrial Average dropped 508 points.

For any broker, being asked to talk about Black Monday is the equivalent of being asked, "Tell me about that car accident that broke your pelvis in three places." Or, maybe, "Would you like to reminisce about your root-canal work?" But Schwab does have one advantage over many of the other people in the securities industry who were singed or seared by Black Monday. He is an apostle of the long-term view. Nothing could be more useful in contemplating the post-Black Monday stock market than a long-term view.

Schwab is the founder and chief executive officer of the Charles Schwab Corporation, which is, through its operating subsidiary, Charles Schwab & Company, the country's largest discount brokerage. Indeed, for many investors "Schwab" and "discount broker" are virtually synonymous. Schwab pioneered as a discounter in the 1970s by charging sharply lower commissions than most brokers—typically, about 50 percent lower. He also eliminated "services"—like investment advice—that he claimed other brokers used mainly as an excuse for keeping commissions high. (He dismisses competing "full-service" brokers as, in reality, "full-commission" brokers.)

Schwab's salespeople are salaried, not commissioned, and they do not advise customers on which stocks to buy, or whether to buy any stocks at all. The company tailors itself to those investors who, as Schwab has described them, "use independent information, make their own decisions, and come out better than those timid fellows who think they need their hands held by a big firm's broker."

Such self-reliant investors thrive,

PHOTO: GEORGE STEINMETZ

"Good companies' stock prices go up and down, but their earnings grow . . . and their stock prices will reflect those enhanced values over long periods of time."

Schwab believes, when they stick with a long-term investment plan. "I think that really successful investing is a long-term thing," he says. "Good companies' stock prices go up and down, but their earnings grow—some at 10 or 15 percent per annum, some at 15 or 20 percent per annum—and their stock prices will reflect those enhanced values over long periods of time."

The short run—if it is defined as the last year or so—has not been kind to the Charles Schwab Corporation or its stockholders. Schwab took his company public less than a month before Black Monday; the price per share opened at \$17, fell to less than \$6 when the market collapsed, and has since recovered only to around \$8.

On Black Monday itself, the Schwab company suffered a \$22 million loss, most of it at the hands of what Charles Schwab says had been a "very conservative" investor with a \$25 million portfolio. The investor was selling stock options called "puts"—he agreed to buy stock at a given price, within a specified period, no matter the stock's price on the open market. In effect, the investor took a bullish position: He bet that the market price would rise, or at least would not fall below the price he had agreed to pay.

Schwab, in his 1985 book *How To Be Your Own Stockbroker* (Dell), wrote skeptically of puts as a "short-term approach to investing. . . . In order to make a profit you have to be very expert or very lucky to be right more often than not over periods of just a few months."

When the market dropped, and stock prices fell far below the levels specified in the puts, the investor took a multimillion-dollar bath—and so did Schwab & Company, since its margin requirements proved inadequate to such an unprecedented debacle. Schwab says of the luckless investor: "No one ever knew he was going around holding this kind of atom bomb in his hand."

Since Black Monday, Schwab customers' transactions have fallen from more than 16,000 a day to fewer than 10,000 a day. "After every bear market, volume recedes," Charles Schwab says. "We're in a period of extreme apathy, and volume in those kinds of periods always drops significantly. How long it will stay in this state, nobody knows."

The decline in volume has meant a decline in the commissions that the Schwab company collects when its customers buy or sell stock—commission

revenues were down almost 40 percent in the third quarter—and that has hurt, because the company has relatively high overhead. It invested heavily in data-processing equipment, rather than farm that work out. But Schwab has no regrets about that investment.

"Back in 1979," he says, "I made the decision to really separate ourselves from our competitors by applying what we thought was the best of technology. I made the decision that, long term, we had to have the best. Yes, it would increase some of our fixed costs, but we could provide the highest level of efficiency, we could really grow the firm from a little teeny firm, which it was back then, to a nationwide kind of a company."

Even now, when the short term weighs heavily on so many brokerage houses, Schwab insists on thinking long. The pressures to think short are, he says, somewhat greater now that his company has gone public; and, clearly, he has taken some steps—a cut in executive pay, layoffs of 5 percent of the staff—only because he wants to show a modest profit. (For the first nine months of this year, the Schwab Corporation reported net income of $6.7 million, versus more than $33 million for the same period last year.)

Not showing a loss "in a difficult time like this," Schwab says, "happens to be part of the credibility formula." But he appears to be more concerned with laying the groundwork for the next upswing in the market: "We're sort of like an accordion now; we're all set to expand, and we're waiting for the tune to change."

And change it will, if Schwab's own career is any guide. He has heard both hornpipes and dirges.

He is a native Californian, born in Sacramento in 1937. Soon after he graduated from Stanford University's business school in 1961, he and two friends started an investors' newsletter; after a few years, it blossomed into a mutual fund with $20 million in assets. But then, in one of the reverses that Schwab has described as "part of the learning process," the mutual fund was whipsawed between federal and state regulators in Texas and eventually had to go out of business. Schwab's first marriage fell apart (he has since remarried), and he wound up $100,000 in debt.

In 1971, Schwab started the brokerage firm that grew into today's Charles Schwab Corporation. It started slowly—its debt mounted, and Schwab's original partners all bailed out—but then it got a big boost: In 1975, the federal government forbade stock exchanges to set the commissions that brokers charge their customers for buying or selling stock. Brokers thus could compete for investors' business by reducing commissions, and Schwab did just that.

In decor as well as technology, the Schwab company stresses the modern: The painting, in an executive conference room, is "Circus Series No. 28" by Ida Kohlmeyer.

PHOTO: JOHN HARDING

Schwab's company grew rapidly—he had more than 100,000 customers by 1980—but financing his growth was a continuing problem, he says, "and clearly Wall Street wasn't about ready to help me." So, in 1982, he sold the company to the Bank of America for $53 million worth of the bank's stock.

The deal soured quickly. The bank's stock skidded as financial problems surfaced, and Schwab found that he was prevented from offering services like mutual funds, because of federal restrictions on what banks could do. Early last year, the bank sold the company back to him and a group of investors. In September, 1987, the Charles Schwab Corporation went public.

Schwab's company now has more than 1 million active accounts, and it operates in a business environment sharply different from the one in which he pioneered over a decade ago. Discount brokerages have become an established part of the securities industry, accounting for 15 percent or more of all transactions by individual investors. Charles Schwab & Company is the largest of the discount brokerages—it estimates that it takes in about one third of all the commissions earned by discounters—but now it must compete with firms that offer stripped-down services at even lower prices.

Moreover, Schwab and the other discount brokerages may ultimately bump against a peculiar kind of ceiling on their growth. The irrational element in investing is, Charles Schwab says, "overwhelming. And [Black Monday] underscores that more than anything else, doesn't it?" If, as Schwab says, many "full-commission" brokers are "professional croupiers," whose aim is not to help the investor but to "keep the bets coming," that may be because many investors like being pumped up.

For such investors, in other words, Schwab's long-term view may be no more appealing than the spinach on a 4-year-old's plate.

But if the Schwab company ever bumps against such a ceiling, it probably will not do so for many years. It has added 170,000 new accounts this year, despite the slowdown in trading, and it has plenty of room for geographical expansion—one third of its accounts are in California, compared with only 6 percent in New York.

As a strategy for long-term growth, Schwab has staked out a sort of middle ground between the bare-bones discounters and the "full-commission" firms. The Schwab company charges commissions a few dollars above those of other discounters, but it also offers services that it says benefit its customers in ways that "full-commission" brokers' services often do not. It is, for instance, selling software called "The Equalizer," through which investors with personal computers can call up research on particular companies from third parties' databases (since Schwab does no such research itself).

Over time, Charles Schwab believes, as his company creates more and more "products and services that are really useful to people," it will expand its base of potential customers. "In the early part of our life as a company," he says, "we were appealing to people who were experienced investors already, but we think we can move down to get the person who's coming out of college. My mission and ambition is to make every working American an investor. I think it's critical to the long-term success of our economic democracy." NB

MANAGING YOUR BUSINESS

A Window On Our Business Past

By Henry Altman

Ask successful business people where they got the good ideas that underlie their triumphs, and the answers will be as varied as the people.

The germ of a profitable new product or better business technique can be in a magazine like this one, in a morning newspaper, a lunchtime conversation, an afternoon meeting, an evening newscast, a nighttime reverie.

Or it can be in exposure to the past, say officials at the Hagley Museum and Library, in Wilmington, Del.

The Hagley specializes in business history. That is the focus of its museum exhibits, 175,000 volumes, half-million photos, and masses of records and writings and of the seminars conducted—and grants given—by a scholarly center that the Hagley has established.

In addition, docents bring the past to life with demonstrations and explanations in other Hagley structures where industry once thrived and employees labored or lived. More than 200 docents are unpaid volunteers, among them retirees who share hands-on knowledge gained in their working lives.

Every year tens of thousands of visitors tour the Hagley's leafy 230-acre site along the Brandywine River in Wilmington. Museum exhibits depict a wide range of business history, but there is emphasis on industry, and in particular on the Brandywine's industrial past.

Though never more than 50 yards wide, the Brandywine drops 125 feet in the final 5 of its 60 miles. Mills harnessing this waterpower in the 1700s produced nails, textiles, snuff, paper and—above all—flour. At the time of the American Revolution, "Brandywine superflour" was well-known thousands of miles away, across the Atlantic.

After Éluthère Irénée du Pont de Nemours fled the French Revolution, the Brandywine became famous for a different product. E.I. had learned the art of making black gunpowder under famed chemist Antoine Lavoisier, and in 1802 he began making it on the Brandywine. It was the birth of what became America's largest chemical company, named for its founder. (The Du Pont Company made black powder on the site until 1921, but the company does not produce it anywhere now.)

The Hagley Museum and Library's acreage in Wilmington, Del., includes an 1803 residence occupied by generations of the Du Pont family and seen here from the garden.

PHOTOS: HAGLEY MUSEUM AND LIBRARY

John A. Dick, who was hired in 1915 as the Du Pont Company's first full-time photographer, is shown with a Cirkut camera, used for taking panoramic photographs.

Visitors to the Hagley grounds see restored Du Pont powder mills, a working waterwheel and one of the water-driven turbines that succeeded waterwheels. They also see an 1870s steam-driven engine and a rebuilt 1900 hydroelectric plant that generates power for Hagley buildings. They may also visit an 1858 machine shop where, when a 700-pound bearing for the turbine broke a few years ago, a new one was produced the old way.

In addition, the grounds contain 19th-century company housing and a school for workers' children, as well as a mansion built by E.I. and occupied by generations of Du Ponts. There also is a barn containing antique transport equipment, including a Conestoga wagon depicted on a 3-cent stamp issued in 1987, and an Italianate garden built in the 1920s on the site of powder works that blew up in 1890.

The Hagley name—its origin unknown—had been attached to land that the Du Pont Company obtained for its gunpowder-manufacturing facility, and the site became known as the Hagley Yards. Most of the land now occupied by the Hagley Museum and Library had been sold off by Du Pont before the museum corporation was formed in 1952. The parcels of land that became the Hagley Museum's acreage were acquired in various ways, some of them from individual owners, including members of the Du Pont family.

When it opened to the public in 1957, the Hagley Museum concentrated on Du Pont achievements. Then, through its interior exhibits and its library collections, the Hagley's scope was broadened to include business history in the Mid-Atlantic states and then, more and more, the history of business throughout America. Today it even has a *soupçon* of international flavor. It houses a collection of hard-to-find foreign patent records, and it is taking part in efforts to compile a business-history bibliography for six countries—the United States, Japan, Germany, Britain, France and Italy.

The Hagley feels that in addition to intriguing its visitors—ranging from schoolchildren to foreign dignitaries—with the drama and achievements of American business, it has much to offer

The Hagley Museum and Library can do more than intrigue you with its slices of industrial history. Its expertise can help your company's operations now and in the future.

present-day business people. For example, their ingenuity may be spurred by the museum's exhibits of ingenuity. Particularly notable is the Hagley's miniature display of a Rube Goldbergish, waterpowered flour mill developed by Oliver Evans. One of 12 children born on a Wilmington area farm in the 1700s, Evans invented a steam-driven vehicle that he drove through Philadelphia in 1804, and he judiciously used gravity to eliminate most manual labor in flour mills.

Also, the Hagley is a potential gold mine of research for marketers. Trade catalogs showing past products, city directories showing past locations and photos showing past work methods could provide valuable advertising material to, say, a company celebrating a 50th or 100th anniversary.

On top of that, the Hagley provides a storage place for company and trade-association archives. It currently has records of 1,000 companies—mostly large ones such as Du Pont, Bethlehem Steel, the Sun Company and Unisys Corporation. But included is J.E. Rhoads & Sons, a smallish Wilmington-area manufacturer of industrial belts that was founded in 1702 and can boast that it is America's oldest firm.

A browser can make fascinating finds.

In a box on a library shelf, for example, is a pocket-size black notebook. The first page contains a hand-written name, Elmer A. Sperry; an address on Prospect Park South in Brooklyn, N.Y.; and this message: "If lost, will finder kindly return to above address?"

The notebook, dated 1910, is a jumble of memos that Sperry wrote to himself, and diagrams he drew, about products to be made and business to be done. Sperry, of course, was a scientist and manufacturer best-known for developing the gyroscope, an invaluable navigation aid. His gyroscope company, which eventually played an important role in developing the computer and later merged with Remington Rand, became a progenitor of Unisys Corporation when Sperry Rand merged with Burroughs Corporation.

Then there is a 1781 inventory of the assets of the Principio Company, operator of iron works in Maryland and Virginia. (The listing includes slaves such as "Joe, 25, BlkSmith," and "Maria, 60, Worn Out.") The assets were to be sold, with most proceeds going to the two states, because the company was owned by English investors. One twelfth of the proceeds was to go to an American owner, George Washington's half-brother, Augustine.

The Hagley Museum's vast collection of industrial photos includes this picture, taken around 1900, of a hot-metal transfer ladle at a steel plant at Sparrows Point, Md.

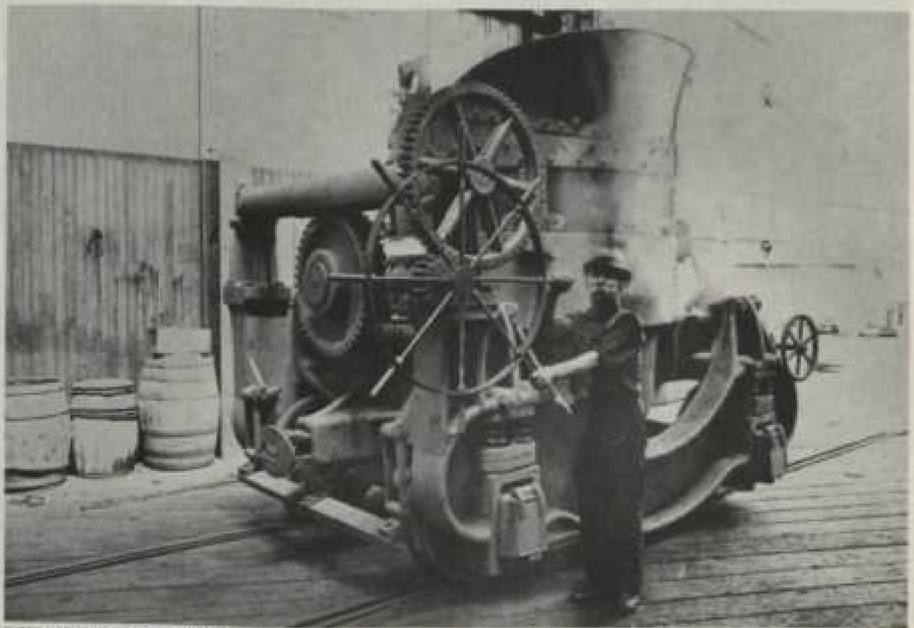


PHOTO: HAGLEY MUSEUM AND LIBRARY

The Hagley and the U.S. Chamber of Commerce have agreed in principle that records of the 76-year-old business federation will be stored at the museum and will be available to scholars.

Also, the Hagley is ready to share its expertise if your business wants advice on storing its own archives or setting up a company history. (You can address your request to the Hagley at P.O. Box 3630, Wilmington, Del. 19807, or you can call 302/658-2400.)

Among the recommendations you would receive from the museum's archivists: Avoid repetition, but save significant contracts, the minutes of directors' meetings, and evidence of milestones in labor relations, location changes and technology. Also, store papers in a dark, cool place where temperature and humidity changes are not radical, thereby slowing chemical reactions that occur as paper ages. And don't store papers in pulverized-wood-based containers if you want to avoid acid that will brown the papers. As for plastic, some plastic folders can decompose, bonding to paper, or can cause ink to bleed. Staples and paper clips can rust, causing stains.

Why keep archives or a history (for which archives can be a vital source)? Many enterprises—like Wells Fargo & Company, the bankers who can hark back to pony-express riders—have found records of the past a major marketing tool. The records also can be invaluable in promoting employee loyalty or straightening out legal tangles.

And sometimes, says Glenn Porter, the Hagley's director, "knowledge of past creativity helps in a search for creative ways of doing things today."

Without written records, he says, "a company's history may be tied up in a few people." The people won't be around indefinitely, but properly kept records will. NB

SPECIAL REPORT

Portfolio Preferences For Cautious Investors

By Walter Wingo

PHOTO: RICHARD SERK

Over a year after the Dow Jones Industrial Average fell a record 508 points in one day, many business executives are still wondering whether their remaining personal investments are well placed to reap the best returns.

We asked a dozen professional investment planners and advisers nationwide to design ideal portfolios for an investor in a high tax bracket who leans toward the conservative side in seeking balance between growth and income.

In general, their views reflect a slight relaxation of the go-slow approach that has prevailed since the October, 1987, drop in the stock market. A composite of the analysts' responses suggests this mix for the portfolio of the typical *Nation's Business* reader:

- U.S. stocks, composed heavily of income-type securities such as utilities, 31 percent.
- Corporate bonds, 13.2 percent.
- Three-month Treasury bills, 10.3 percent.

Walter Wingo is a free-lance writer in Arlington, Va.

Buyers looking at stocks don't see anything promising, says Donald R. Nichols of Mardon Investment Services, Woodridge, Ill. He says bonds are "excellent alternatives."

- Two- to three-year Treasury notes, 10 percent.
- Money-market funds, 9 percent.
- Municipal bonds, 8 percent.
- Long-term Treasury bonds, 7 percent.
- Foreign stocks, 5.4 percent.
- Certificates of deposit maturing in a year or less, 2.6 percent.
- Real estate, almost equally split between limited partnerships and real-estate investment trusts, 1.7 percent.
- Foreign bonds, 1 percent.
- Precious metals, 0.8 percent.

In sum, the "ideal" portfolio indicates that most analysts are still far from being outrightly enthusiastic over stocks. They continue to recommend that you shift a larger chunk of personal funds into havens of government securities.

Of course, none of the experts advocates the exact blend shown in the composite. Their suggestions, in fact, vary widely and sometimes clash on specifics. All seem to concur, though, with a view expressed by one of the dozen interviewed, Jay Goldinger, principal of Capital Insight, Inc., a brokerage in Beverly Hills, Calif.: "If you're going to make an error here, make it by being too risk-averse, instead of too aggressive. It's not a time to be playing; it's a time to be holding back."

This is a widely held view, even though analysts foresee no spectacular swings in the year ahead in two of the main factors in investment decisions: inflation and interest rates.

"After I run my fingers across the financial pages and stick them in the wind, I have an inkling that we are heading slightly toward the more recessionary possibility than the inflationary possibility," says another of the experts interviewed, Donald R. Nichols. Nichols is managing partner of Mardon Investment Services Corporation, Woodridge, Ill.

Larry Biehl, director, Bailard, Biehl and Kaiser (BB&K), investment advisers in San Mateo, Calif., agrees. "The

Financial advisers, slightly more relaxed than they were after last year's stock-market decline, recommend that investors in upper tax brackets proceed cautiously and steer clear of risks.

drought is over," he says. "Oil prices aren't scaling up. Commodity prices are stabilized."

On interest rates, John Kiers III, portfolio manager of Central Carolina Bank & Trust, in Durham, N.C., says: "Long term, we look for rates to fall. In the interim, they may rise but not significantly over the 9.5-10 percent level."

After seven years of economic expansion, Biehl of BB&K notes, corporations do not need to borrow much more, and government spending as a percent of total output has declined since 1985. He says the stock market is "acting more on fear than on greed."

Kiers sees a sliver of opportunity in this: "Because too many people are negative on the stock market, we feel that it has become more attractive, but not overly attractive." He especially likes investments in tobaccos, beverages and foods.

Gordon Snyder, marketing vice president for Twentieth Century Investors, Inc., in Kansas City, recalls the stock market's peak of August, 1987. "Stocks were going at a premium then. Today they are on sale. We're in a funny business. People throw money at a stock when it is at premium and don't buy it when it is on sale."

Portfolio adviser Biehl suggests investing rather evenly across industry groups, slightly favoring companies with small capitalization rather than the blue chips.

Basic materials, such as steel and chemicals, are becoming more attractive, according to Don Hays, director of investment strategy with Wheat First Securities, headquartered in Richmond, Va. He recommends that they make up 11 to 12 percent of equities in the ideal portfolio. He also recommends 7 percent in industrial products, such as machine tools. He likes 15 percent of stocks in consumer durable goods, including household appliances, air conditioning and heating, shoes and related apparel, photo equipment, autos and tires. Nondurable goods should comprise 11 to 12 percent, he says.

Financial stocks? Hays recommends investing 10 to 12 percent of your stocks in banks, mostly regional banks. He would also have 5 to 7 percent in energy stocks and 4 to 7 percent in utilities, concentrated in the telephone companies.

Other analysts would put a much higher percentage in utilities, including consumer gas companies. Portfolio manager Kiers prefers utilities whose dividend-to-payout ratio is normally higher than it is now. "But stay away from high-yielding utilities due to fickle regulatory boards," Kiers counsels.

PHOTO: DUANE HALL/VIS TEC

"Good old plain vanilla Treasuries" look appealing to John Kiers III, portfolio manager of Central Carolina Bank & Trust, in Durham, N.C.

Arley Hudson, portfolio manager and director of research for Safeco, an insurance company and manager of mutual funds in Seattle, is another champion of regional banks. He says that regionals are selling at a low multiple of earnings, and, unlike banks in major money centers, are not burdened with loans to Third World countries.

James D. Henderson, vice president of investment-management services at Shawmut Bank, headquartered in Boston, advises searching for "inefficiently priced securities—companies that may be out of favor in the marketplace but that may look positively or favorably priced relative to our expectations dur-

SPECIAL REPORT

Portfolio Preferences For Cautious Investors

Portfolio adviser Larry Biehl, of San Mateo, Calif., suggests investing evenly across industry groups, slightly favoring companies with small capitalization.

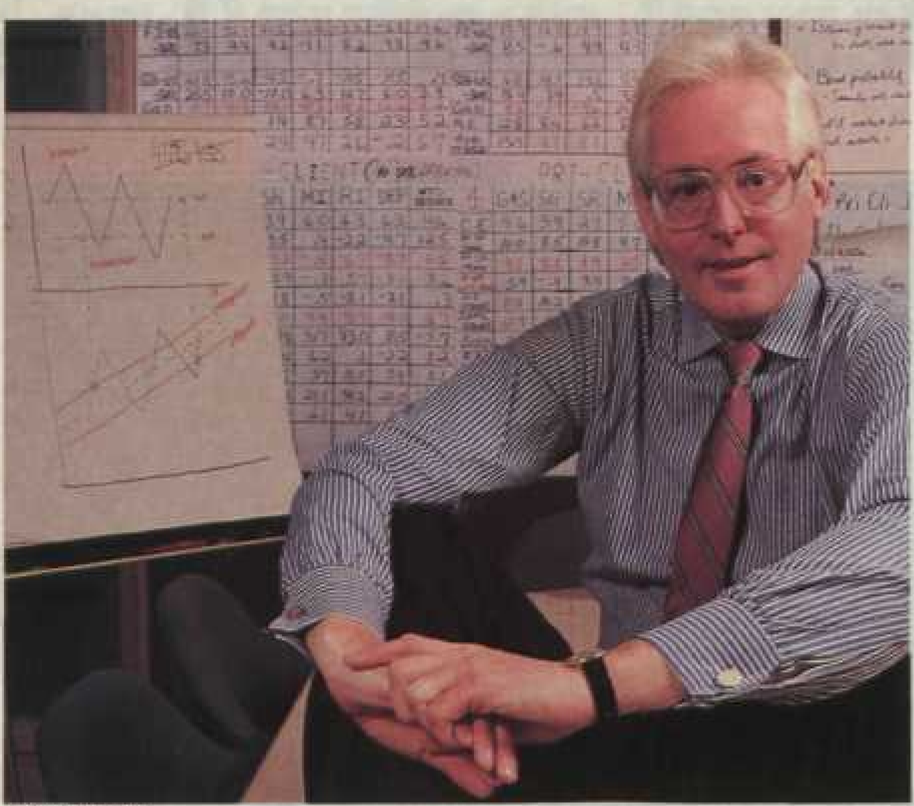


PHOTO: LINDA SUE SCOTT

ing the next one or two years." Such a portfolio, he says, would be somewhat more heavily weighted in consumer cyclicals and staples and technology.

But there are also stocks to avoid. Luther E. Tyson, president of Pax World Fund, in Portsmouth, N.H., says that "the worst policy I could imagine" would be going into highly speculative companies with high price-earnings ratios and with a short history of paying dividends. "In a market that is really going great guns, you might want to speculate a little and put 5 or 10 percent of your portfolio into that kind of mix, but I would never do it personally."

Banker Kiers adds this caution: "Because of a possible downturn in business, we recommend avoiding companies with a lot of debt, especially low-quality debt." The experts also advise going easy on energy stocks, because of the unstable oil market, and on drug companies in the face of increasing competition from generics and pricing pressure from the government and insurance companies.

"It looks like the high-tech group of stocks is another that you would want to underweight," says Hays of Wheat First Securities. "They have had a big run for a while, and it looks as if they are due for a cooling phase."

As for foreign stocks, Goldinger of Capital Insight says he would be out of all international investments. He thinks the dollar will "continue to appreciate considerably" on foreign exchanges. Snyder of Twentieth Century Investors agrees: "I have the feeling the U.S. dollar has pretty much scuffed across the bottom."

The best way to invest in foreign stocks these days, according to Nichols of Mardon Investment Services, is through a world fund. But he notes that people looking right now at stocks, domestic or foreign, "are in a quandary. They don't see anything out there that looks promising."

Like many others, Nichols considers bonds as "excellent alternatives" to stocks today. "I would look for a balance between 3-year and 10-year maturities," he says. "We are beginning to see the corporate sector become a little more attractive in terms of yield."

Investment strategist Hays would limit bonds to those that mature in three to five years until "our bullish scenario comes to pass," and then he would favor bonds maturing in 15 to 30 years.

The analysts had high praise for bonds of some hospital-supply and environmental companies. Zero-coupon bonds are "always appropriate" because there are so many different types of them, says Nichols, who specializes in this form of debt security, which pays interest only upon maturity. He cites split-funding arrangements as among the "wonderful new products using 'zeros.' For example, if you are interested in investments in gold, you can enter into a trust that would put a third of your investment in zeros, and the remainder into gold or commodities speculation," Nichols says. "If you stay with the fund for five to seven years to its maturity, you would at least break even."

Junk bonds? "No!" says Tyson of Pax World. "They are so highly leveraged, you don't know whether or not you will ever get your money back."

In Chicago, Bob Edwards, vice president of the American Association of Individual Investors (AAII), claims that the market for junk bonds is different from what it used to be. "You now have more new issues that are coming out with low ratings," he says. "It used to be that you might have bonds with low ratings issued by companies that have a background of quality and were going through tougher times. Nowadays this huge new market in junk bonds is by and large coming from new companies or mergers or takeovers being financed by junk bonds. You don't have a track record."

Adds Biehl of BB&K: "You've got to be very careful of the bases of any of those junk bonds. They've got liquidity problems and relative safety problems that we think you don't need in today's environment."

To Kiers of Central Carolina Bank, "good old plain vanilla Treasuries" are looking more attractive as state income-tax rates rise and as high-grade corporate-bond yields get tighter to Treasuries. "Day-to-day interest-rate fluctuations are so great now that we hesitate to use long-term bonds," Kiers says. "Intermediate maturities have less fluctuation and are far enough up the yield curve to provide a relatively good return. If a five-year Treasury note yields 8.7 percent, does it pay to go out another 25 years for 30 basis points?"

Tyson of Pax World favors agency bonds, such as Federal Home Loan Bank and Federal National Mortgage Association with no more than three years to maturity.

"The one investment category that definitely is going to be a larger percentage of every intelligent portfolio will be the income sector, and particularly municipal bonds," says Nichols of Mardon. "Those ugly ducklings really

became swanlike following tax reform.

"Ordinary income bonds are no longer at a tax disadvantage regarding capital gains. Also, income securities are giving more-predictable returns right now. Basically, municipal-bond securities are about all that's left that offer some tax advantage."

Henderson of Shawmut favors general-obligation and revenue issues with an average maturity not much longer than 8 or 10 years for investors in the high tax bracket. He would extend those maturities if interest rates rise.

But a caution on municipals from Kiers, the bank portfolio manager: "We are using only municipals of 10 years or more in maturity due to current tax rates. On an after-tax basis, Treasuries actually pay more than 'munis' on the short end. If, on an after-tax basis, munis and Treasuries are equal, we would prefer the Treasuries because of the lower risk. Also, munis of anything but general-obligation stature invite trouble in the form of credit risk and possible legislative headaches."

Biehl of BB&K adds: "We want to make sure we won't have those bonds called away from us prior to being able to realize that full appreciation. Unfortunately, most munis have a call feature, where Treasuries do not. So we stand a better chance of getting that full rate of return with Treasuries. Secondly, you have greater liquidity in the Treasury market."

Many investors are sidestepping the call problem through tax-free U.S. Treasury equivalents, known as escrowed and prerefunded municipal bonds, says bond specialist Michael S. Appelbaum of Shearson Lehman Hutton in New York City.

Both bonds are created by municipal refinancing. Their interest and principal-to-maturity or call dates have already been paid with U.S. government obligations that a trustee bank holds in irrevocable escrow.

Among foreign bonds, Biehl of BB&K likes those from France, Australia, West Germany and the Netherlands. He notes that interest rates have been running higher there than in Japan and that the French franc, the West German mark and the Dutch guilder are among the strongest currencies.

The wise upper-income investor should have a large chunk of personal investments in cash equivalents these days, advises C. Coleman McGehee, president and chief operating officer of Sovran, headquartered in Richmond, Va. Other experts agree. "Stay liquid. Stay conservative," prescribes analyst Jay Goldinger.

Edwards of AAII favors money-market funds: "You can get at your money quickly. There is no erosion of principal. You are simply riding the interest rate payout, so you know that your principal is always going to be there." Investments in real estate, on the other hand, are iffy, and they depend almost entirely on local conditions.

Ginnie Maes—federally insured mortgages packaged by the Government National Mortgage Association—have lost some appeal recently. "They tend to be the worst of two possible worlds," Edwards says. "If interest rates go down, then the price of the Ginnie Mae should go up. But people who have mortgages start refinancing at a lower interest rate. If interest rates go up, then the price of the Ginnie Mae is falling, but people are not going to refinance. You tend to get a situation where you are locked in at the worst time and you are kicked out at the worst time."

Precious metals? "My feeling is that anybody can create a profitable and rewarding portfolio without them," says Nichols of Mardon. "There have been considerable studies that have shown that gold and especially silver simply are not the inflation hedges that they are broadcast to be. Silver has often been called the poor man's gold. Well, I tend to think of it as fool's gold."

Kiers and Biehl say the best way to invest in precious metals at this time is through mining stocks. "The philosophy is that 10 percent of your portfolio should be in precious metals—and you ought to hope that you lose it," says Snyder of Twentieth Century, "because that means you hit a home run in everything else."

Whatever mix of investments you pick, he adds, make sure it fits within your personal "sleep quotient." If you stay awake worrying about your portfolio, switch funds to less-risky instruments. NB

Personal Management

To Your Health

By Norman Brown

When The Heart Stumbles

It happened to the mayor of New York; it can happen to you. It's called a "silent heart attack." Often there may be nothing obviously wrong, as doctors found when they examined Mayor Edward Koch after he suffered an attack of nausea, dizziness and slurred speech. There was no indication of a clot, and an electrocardiogram showed his heart was normal.

Actually, "heart attack" is a catchall term for a wide variety of problems that can strike the heart and may lead to death. One third of the time, they strike without warning. In Koch's case, a blood vessel spasm briefly diminished the flow of oxygen to the heart and brain, causing discomfort but no lasting damage.

A person with heart disease may feel the problem as chest pain, or angina. But many people with heart disease suffer from "silent ischemia" (ischemia is the general term for coronary heart disease) and feel no such pain.

Heart muscles and nerves are fed by small blood vessels called coronary arteries. If the arteries clog up (atherosclerosis), the nerves quickly lose their beat and the pump loses its power.

"Even if only a small artery closes down briefly, it can scramble the electrical rhythm of the heart, making it beat erratically and ineffectively," says Dr. Alan Rozanski, cardiologist at Cedars-Sinai Medical Center in Los Angeles. Such a short circuit is a likely cause of the catastrophic heart attacks that strike men (and less often women) under the age of 50.

There is, however, no reason to worry about an occasional pounding heartbeat before an important meeting.

Abnormal or continued stress can trigger ischemia or a heart attack, though.

And white-collar men—as their careers peak—are more likely to be disabled by heart disease than blue-collar men, according to Dr. Robert Brackbill of the National Institute for Occupational Safety and Health in Cincinnati.

"Managers' rates of disability for heart disease look the highest," says Brackbill, who sampled 225,000 disability cases among men between the ages of 35 and 55 (women were not included in the study). The difference could be job-related stress: Many of the executives don't wield as much control as outsiders think.

The American Heart Association's guidelines to physicians for testing apparently healthy persons include a baseline electrocardiogram at age 20 and a chest X-ray at age 40. Tests of blood lipids—fats—and triglycerides are also recommended.

And so is exercise.

More Americans risk heart disease because of physical inactivity than because of cholesterol, smoking or high blood pressure, says Dr. Carl Caspersen of the Centers for Disease Control in Atlanta. About 60 percent of us do not exercise even moderately—three times a week for more than 20 minutes. And those whose risk of heart attack is lowest are advised to invest about 2,000 calories per week in physical exercise, a lot more than the 600 calories the average person burns in three 20-minute sessions.

Researchers at Stanford University say that rapid walking, biking and home exercise can cut your risk of heart attack by as much as half. ■

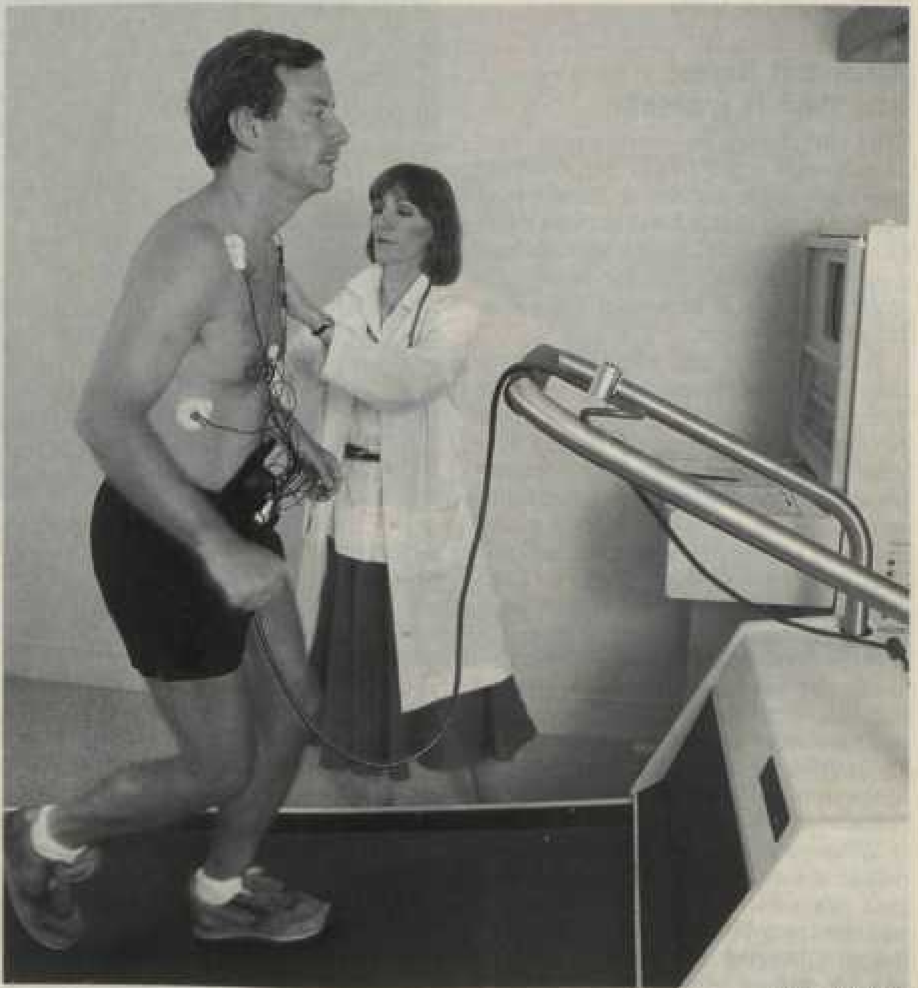


PHOTO: T. MICHAEL KEZA

A stress test is a useful measure of the heart's condition. One study indicates white-collar men are more likely than those in blue-collar jobs to suffer disabling heart disease.

Norman Brown, who lives in Providence, R.I., writes frequently on medical topics.

The foundation of a prosperous retirement rests on Social Security, company pensions, private pensions and your savings. None by itself will let you live lavishly. But their combined income should enable you to cover your needs and splurge on some nonessentials.

PHOTO: PETER BECK—UNIPHOTO

It's Your Money

By Paul N. Strassels

Retirement Money: How Much Is Enough?

Why do you go to work every day? Most people work to pay for everyday necessities. Some strive to build a business or an estate that will survive them. Others want fulfillment derived from meaningful work. But for many, the overriding goal is to provide for a comfortable retirement.

Achieving that goal requires continuous planning during your working years. The foundation of a prosperous retirement rests squarely on the four sturdy legs of Social Security, company pensions, private pensions (individual retirement accounts and Keogh plans) and your savings. Singly, none will provide you with a lavish lifestyle. Combined, they should provide more than enough income to cover your needs, splurge on some nonessentials and generally pay your own way regardless of inflation. Though in retirement you will not have work-related expenses such as commuting costs, you will need about 75 percent of your pre-retirement income.

When you reach retirement, you will collect a monthly Social Security check that can mean the difference between just scraping by or living comfortably. Social Security retirement benefits should replace approximately 20 percent of that part of your earnings (a maximum of $45,000 in 1988) subject to Social Security taxes.

Call or write your Social Security office and ask for a rundown on your account. You will fill out and send in Form 7004, and weeks later you will receive information on how much has been credited to your retirement fund each year and what you are likely to collect when you retire. For example, if you are now 45, your spouse does not work and you contribute the maximum to the trust fund each year, you will collect over $1,500 a month. If your spouse works, you will receive over $2,000 a month.

The Bureau of Labor Statistics says you can expect your company pension and Social Security to replace 50 percent or more of pre-retirement income. For example, those earning $40,000 a year will find that the combined pensions cover 64 percent of current earnings, says the BLS. The higher your earnings, the lower the percentage of income that will be replaced.

If you are not covered by a company pension plan, you will have to establish your own retirement program. Establish an individual retirement account and make the maximum tax-deductible contribution to it every year. If you are self-employed, set up a Keogh plan, which has a higher ceiling on contributions than the IRA.

If your company offers a deferred-compensation plan like a 401(k) plan (named after that section of the Internal Revenue Code that authorizes it), participate to the maximum amount allowed. Under many deferred-compensation plans, the company will match your contribution, perhaps 50 cents on the dollar, up to a pre-established maximum amount.

If you are vested in your company's plan but leave before retirement, take the cash from the lump-sum distribution and immediately reinvest it (roll it over) in an IRA.

If you want your assets to grow and be protected, invest your money as the rich do. According to the IRS, the wealthy keep half of all their assets in real estate and stocks. The tax-favored benefits of both make them ideal vehicles for capital appreciation. Others invest in tax-exempt municipal bonds and in their own businesses.

Here's how to set up a plan: Say your current annual income is $75,000. You should plan to generate at least 75 percent of that, or $56,250, to maintain your living standard.

Anticipate that Social Security will cover about $9,000. (That's 20 percent of the current wage base. Half will be tax-free, and benefits go up annually, based on increases in the consumer price index.) So you must come up with $47,250 a year from your pensions, IRAs, investments and savings.

Total your dividend and interest income; refer to last year's tax return. Check the current value of your investment portfolio. Calculate the yield you could get, especially if you changed your investment philosophy from capital accumulation to income.

If your pension benefits are vested, ask your personnel office for information on what you are likely to collect and on your various options.

Analyze your IRAs, Keoghs and deferred-compensation accounts. Figure how much additional money you will contribute before retirement and what those savings will be worth as interest and dividends compound over the years.

If you have met your goal of covering the amount you have calculated that you and your family will need in retirement, just make sure that you cover the impact of inflation on your income.

If you have not met your goals, consider your options: You could work beyond the earliest retirement age, increasing your Social Security benefits, company pension and savings. You could retire and become a consultant or begin a new career. Or you could save as much as you can in these years before retirement, especially in tax-favored accounts. NB

For Your Tax File

PHOTO: RICHARD SLADE—UNIPHOTO

Before you celebrate the new year, make sure you have taken care of the December details in your 1988 tax planning.

A Year-End Checklist . . .

By Gerald W. Padwe, C.P.A.

The end of 1988 is near. For the first time in three years, tax rates will *not* go down, but that does not mean you should ignore last-minute tax planning. Here are points to remember in December.

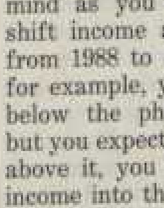
• Some upper-income taxpayers will have part of their incomes taxed at a "phantom" 33 percent marginal rate, even though the top statutory rate is 28 percent. The reason: The 1986 tax law phases out personal exemptions as income rises above a certain level, making the effective marginal rate higher than the statutory rate. For joint-return filers, the phantom rate begins at about $72,000 of taxable income and ends at about $170,000 (the figures are higher on returns with more than two exemptions).

You should bear the phantom rate in mind as you assess opportunities to shift income and deductible expenses from 1988 to 1989, and vice versa. If, for example, your 1988 income will be below the phantom rate's threshold, but you expect next year's income to be above it, you may want to accelerate income into this year and postpone deductible expenses until 1989.

A caveat: Gains on stock sales in the last five working days of 1988 must be recognized on your 1988 return. They can no longer be deferred until a January settlement date.

• So-called miscellaneous itemized deductions—employee business expenses, investment advice, tax-preparation fees, and so on—can only be deducted to the extent that they exceed 2 percent of 1988 adjusted gross income. If you are just under that threshold or will exceed it, you may want to consider prepaying some of 1989's similar expenses, to guarantee their deductibility.

• If you have self-employment income (from a director's fees, say, or a weekend business) but have not set up a Keogh retirement plan, you must do so before January 1 to get a tax benefit for 1988. A contribution to the plan may be made as late as next April 15 and still be deductible on your 1988 return, but the plan itself must be established before the end of this year.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

The IRS Overreaches

In the May issue, I described the case of a taxpayer who filed an individual tax return only after the Internal Revenue Service demanded that he do so, but whose liability was substantially reduced because of withholding. The IRS claimed a 25 percent substantial-understatement penalty from the taxpayer on the entire amount of tax shown on the late-filed return (before withholding). It argued that by not filing a return, the taxpayer had in effect reported no tax due, and since the penalty is based on a substantial "understatement," the amount of the understatement was the difference between zero and the gross tax finally reported.

The Tax Court has now offered its views on the same factual situation (but in a presumably different case), and those views disagree with the IRS's.

In the Tax Court case, the IRS determined that a tax of $7,152 was due; against that, $3,813 had been withheld. The IRS claimed a 25 percent substantial-understatement penalty on the gross tax of $7,152, and the Tax Court was asked to decide whether the penalty should be based on that amount or on the remaining tax due after credit for withholding. The Court sided with the taxpayer.

The language of the Internal Revenue Code section imposing the penalty provides that: "If there is a substantial understatement" of tax, the penalty is "25 percent of the amount of any underpayment attributable to such understatement." Thus, the under*statement* is critical in determining whether the penalty can be imposed; but if it can, it is calculated upon the amount of under*payment*.

In short, said the court, the IRS was right to look to the $7,152 understatement when determining whether the penalty provision applied. But the IRS should have based the amount of the penalty on the payment due after withholding. NB

FOR YOUR TAX FILE

. . . And Some Contrarian Advice

A duplicate set of your important papers could save your financial life if the originals are lost or destroyed, as can happen in a house fire.

PHOTO: KEN NAHOUM—THE STOCK MARKET

By Paul N. Strassels

With only a few weeks remaining in 1988, both businesses and individuals should be firming up their year-end tax-saving plans. But instead of using traditional techniques (accelerating tax-deductible items into the current year while deferring taxable income into the next), you should consider reversing that strategy.

The reason: You pay less tax on earned income in a year when tax rates are low, and your tax-deductible expenditures produce a larger tax benefit when rates are high. And rates may be significantly higher in 1989 than they are now. Some of us believe that Congress may vote a substantial tax increase to take effect next year no matter which political party has prevailed in the presidential race.

So, instead of paying state and local taxes on income, personal property and real estate by late December, consider putting off payment until January, if you will not be assessed late-payment penalties. Think about taking that year-end bonus in December so it will be subject to a 28 percent (or 33 percent) tax; that same income earned in 1989 could be subject to a higher tax.

But along with a boost in tax rates, Congress may very well reinstate the lower rate on long-term capital gains, at least to a limited extent, so don't assume that you will benefit by selling profitable investments in 1988. Unlike earned income, investment profits may be more lightly taxed in 1989.

Keep Two Sets Of Books

Not the illegal kind, but rather a duplicate set that can save your financial life in the event that important papers are destroyed or lost. Lost records can be extremely difficult and sometimes impossible to reconstruct. It is terribly time-consuming to recreate those records, and they are never as accurate as the originals. And even reconstructed records may not be enough to satisfy the Internal Revenue Service.

In a recent case, a taxpayer who had lost his records in a move also lost his tax deduction for business-related travel. The court agreed with the IRS, holding that the reconstructed records were not good enough and that the loss of records was not due to circumstances beyond the taxpayer's control.

You don't necessarily need two sets of paper documents, although that is ideal. By keeping financial data on computer diskettes, along with hard copies of your receipts, invoices and the like, you should have adequate protection in case of accidental loss or damage.

Nondeductible Bank Fees

Savvy taxpayers earn interest on *all* their cash, including the money in their business and personal checking accounts. Since interest earned on these accounts is fully taxed, it only stands to reason that account fees should be deductible as investment expenses. But that is not the case. Although bank fees charged against a business account are deductible, similar fees charged against a personal account are not.

The High Cost Of Education

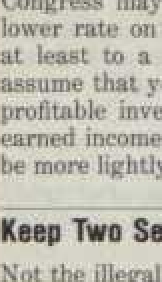
With this year's increases in college tuition reaching 10 percent or more in many cases, students are searching for as much scholarship money as they can find. A scholarship is tax-free when the money is used to pay for tuition, books, supplies and fees of a student pursuing a degree, but not when it is used to cover room and board. A scholarship for a nondegree candidate is taxed no matter what expenses it covers.

Depreciating Customer Lists

Everyone in business knows that an asset with both a fixed cost and a limited, determinable useful life is subject to a depreciation deduction. In a recent case, a business owner who had depreciated his customer list (acquired when he bought the business) had to sue the IRS to gain the deduction. The court found for the taxpayer, pointing out that since this customer list had a measurable useful life, the cost of acquiring it could be deducted over that period of time. That reasoning would also apply to purchased mailing lists.

The Difference A Day Makes

Too many taxpayers suffer penalties for late payment and underpayment of estimated tax because, when they make tax deposits at their local banks, they fail to note the date stamped on the receipt. For example, if you made your September 15 estimated tax payment after 2 p.m., chances are it was officially processed on September 16, which means it was a day late. That single day will cost you at tax time. Inquire at your bank as to when it cuts off daily business, so you know by what time you must make your deposit. Then check your receipt anyway. Sometimes tellers mistakenly turn their dating stamps ahead. NB



Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.

PEOPLE

Making It

Meet the man who made the raisins dance, another with inspired franchising ideas and a father-son duo who found their ladder to success.

The Clay's The Thing

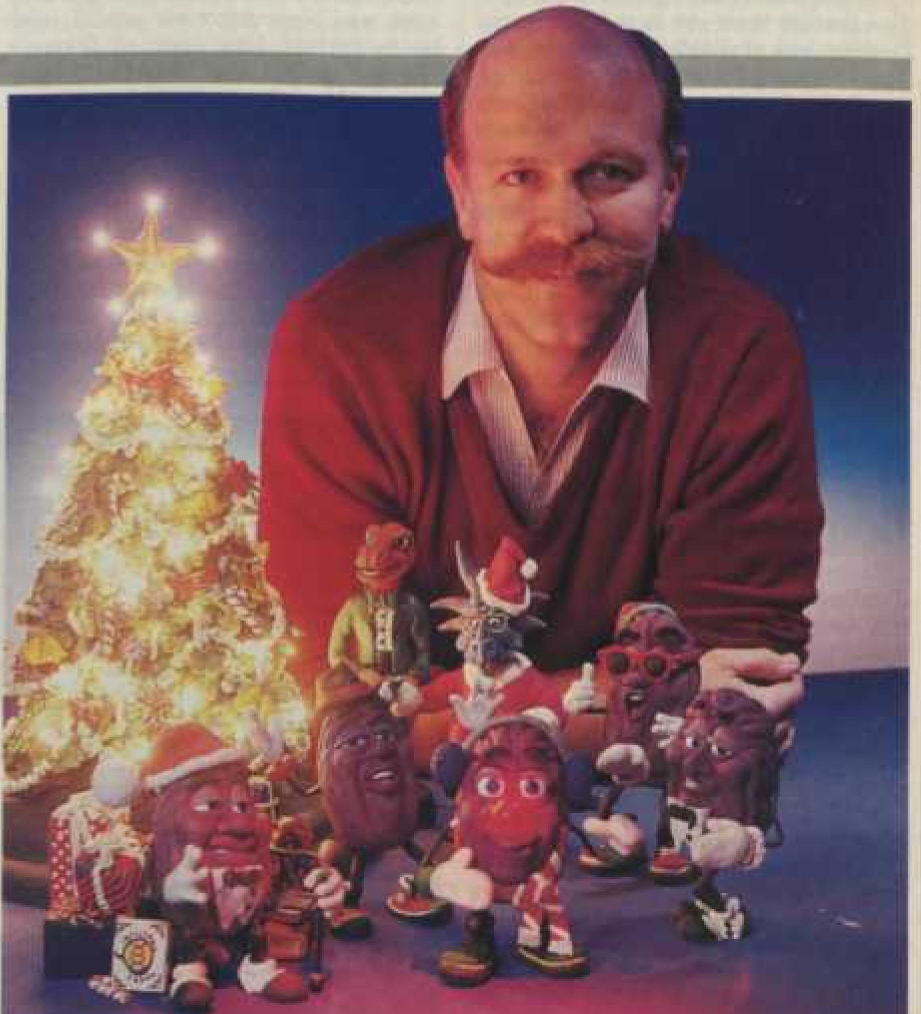


PHOTO IAN HOWARTH

Will Vinton's California Raisins, stars of their own TV special recently, return in December with a Christmas show. A process he calls Claymation—the stop-motion animation of figures molded of clay—gives the fanciful fruit a strikingly solid, three-dimensional reality.

If, a couple of years ago, you had made a list of the kinds of animated creatures most likely to win the hearts of millions of Americans, surely rabbits and ducks and baby deer and other cuddly little animals would have been on it. But dried fruit? Probably not.

And yet the California Raisins—wizened grapes with faces, arms, legs, sunglasses and tennis shoes—are so wildly popular that by the end of this year their likenesses will have sold $500 million worth, at retail, of bedsheets, T-shirts, lunch pails, backpacks, toys and about 300 other products.

A stream of those products trickles into Will Vinton's studio, an unmarked corner building in northwest Portland, Ore. Vinton, 41, has mixed feelings about the stuff. There is, to be sure, pride of authorship: His company, Will Vinton Productions, has made all of the famous California Raisin television commercials. They started airing in September, 1986, with one that showed a conga line of oh-so-cool raisins slipping across the screen to the accompaniment of "I Heard It Through the Grapevine." He makes the raisin commercials using a process he calls Claymation—the stop-motion animation of figures molded of clay—which gives the fanciful fruit a strikingly solid, three-dimensional reality.

But, on the other side, Vinton gets no royalties from any of the raisin by-products. The licensing revenue—about $3 million this year—goes to the California Raisin Advisory Board, the Fresno-based organization that represents California raisin growers and packers.

As Vinton readily acknowledges, the basic idea for the raisins came not from him, but from the raisin board's advertising agency, Foote, Cone & Belding. "It was our charge," he says, "to design the raisins, figure out how they moved—what their choreography was going to be—and bring them to life in a way that was, hopefully, entertaining." As the popularity of the raisins attests, he succeeded spectacularly well.

Even though he gets none of the licensing revenue, Vinton has now acquired "performance rights" to the raisins, and he is using them in TV specials like "Meet the Raisins." He estimates that perhaps one third of his studio's time in the past two years has been devoted to the odd little creatures.

He sounds a little puzzled by the raisins' popularity: "I love 'em. They're great little characters, and they've worked out really well, but in some ways they're not ideal Claymation characters. They have bodies that are kind of rigid. Fortunately, the raisins as we conceived them are cool; they don't have to do a lot. That's their style." But he prefers his frenetic, highly elastic "Noid," for Domino's Pizza, which also debuted in 1986.

In the past couple of years, he says, commercials of all kinds have taken half of his staff's time (he employs about 80 people) and brought in more than half the company's revenue—a strange turn of events for a company that was born out of Vinton's enthusiasm for clay animation as an art form.

Vinton, a native of McMinnville, Ore., got interested in clay animation while he was studying architecture at the University of California. He held jobs with small live-action film companies for a few years, then, working with a friend, made a clay-animation short

called "Closed Mondays." It won an Academy Award in 1975.

Vinton could have made a clay-animation feature then—he says the financial backing was available—but he chose instead to build his company slowly and carefully. Working with a staff of only five or six in the early years, he made short films based on classic stories, for the educational market.

As his staff grew, he took on more projects and began making more commercials, which paid considerably better than the educational films. (He will reveal no figures, but he does say that the company's profits have grown steadily, by 25 to 100 percent a year; he now shares ownership with some key employees.) By the mid-1980s, Vinton's work was becoming more publicly visible in feature films such as Disney's "Return to Oz" and his own "Adventures of Mark Twain," which won some critical praise but died at the box office. Then came the raisins.

Vinton knows that ad agencies' current enthusiasm for Claymation could change overnight: "If they had their way, they would, quite seriously, put arms and legs and sunglasses on every product imaginable. As if that were the only thing you could do with Claymation. And there's no question that characters like that are going to go out of vogue."

To avoid the typecasting that the raisins could bring, Vinton is developing a TV series and a feature film, both of which would use a mixture of live action and Claymation. He hopes to see clay animation become widely accepted as an entertainment medium, just like traditional drawn animation:

"I've often said that if Walt Disney had been a sculptor instead of a graphic artist, maybe things would have flip-flopped."

—*Michael Barrier*

A Coupon Concept

"Virtually every type of business is being franchised these days," John E. Kinch writes in *Franchising: The Inside Story* (Harper & Row). Kinch should know. He has franchised two of them, and neither would come first to mind if you were asked to name a franchised business.

Kinch, 41, heads TriMark, whose franchisees sell local merchants advertising coupons that go out through the mail, and SonMark, which franchises greeting cards—not stores that sell the cards, mind you, but the cards themselves. TriMark is a highly successful franchising operation. It has been consistently profitable for the past 10 years, Kinch says, and it had sales last year of more than $6 million. SonMark, which grew out of TriMark, is still a fledgling.

Kinch did not set out to become a franchisor; he wanted to be a commercial printer. His parents were American missionaries in Latin America, and he learned printing when he was sent to a boarding school in Iowa. He worked his way through college by running a print shop, and he later became plant manager and then principal owner of a printing company in Wilmington, Del.

TriMark began printing coupons to keep its presses busy in slow periods. At first, Kinch sent a commissioned sales force to persuade businesses to pay for coupons in TriMark's mailings, but motivating and keeping good salespeople proved too difficult. In 1978 he switched to franchising.

From its plants in New Castle, Del., and Tucson, Ariz., TriMark now sends out, on average, 500,000 pieces of mail every week to addresses in 35 states. It has become, Kinch says, the second-largest company in the cooperative direct-mail industry.

PHOTO: LEIF SKOOGFORS

John Kinch of Delaware-based TriMark has successfully franchised the coupons that come in the mail; but what about greeting cards?

In his book, Kinch offers this succinct description of how the industry works: "Several different businesses in the same community each purchase a coupon to advertise their products or services. The coupons are designed and printed—at our shop, of course—then ... mailed to the most affluent households in that particular community. ... The cost of this mailing would be prohibitive to most community businesses that attempted to launch it alone, but by cooperatively sharing costs, even the smallest businesses can afford this effective marketing tool."

TriMark's 85 franchisees—each has a territory with at least 150,000 homes—collect payment in advance from the businesses that buy advertising from them. In turn, the franchisees pay Kinch in advance, so that he covers all his costs—designing and printing the coupons, labeling the envelopes, buying

postage—before any coupons leave his plants. TriMark thus never has an accounts-receivable problem.

But Kinch ran into the same problem that plagued him when he was a commercial printer: peaks and valleys in demand. November, he says, "is the driving month of the year" for coupons, as merchants seek Christmas business; December is weak, and so are the summer months. So, Kinch says, "we were looking for something that we could use to level off production."

TriMark began filling in with greeting cards in 1986. "We were going to go through the traditional [sales-representative] system," he says. "But the more I talked with other small, alternative-greeting-card companies, the more they kept coming up with the same problems" he had encountered with TriMark before he went into franchising. His answer: Franchise the greeting cards.

Kinch set up SonMark as a separate company, with its headquarters a few hundred feet away from TriMark's plant in a New Castle industrial park. He has recruited nine franchisees so far. The idea is that franchisees lease card racks from SonMark and persuade retailers to give them floor space. Then the franchisees keep the racks full with cards they buy from SonMark and bill the retailers for cards sold.

In the greeting-card industry, a small company such as SonMark faces strong competition. But Kinch is a highly religious man (many of SonMark's cards have religious messages), and if he is ever tempted by doubts about SonMark's future, he can hark back to his earliest days at TriMark, when that company survived a series of crises.

"We did a lot of things wrong," Kinch says. "There are a lot of reasons we should not have made it. But there's an element of providence involved."

—Michael Barrier

"The Freedom To Do It Your Way"

Bob Fischer, Sr., of Camden, N.J., who turned 75 last May and is on his second heart pacemaker, has made a career move.

For two months this fall, Fischer and his son, Bob, Jr., 38, traveled through New Jersey and eastern Pennsylvania, giving 150 demonstrations of their new Economan, an aerial ladder of the kind used by cable TV companies and utilities. The Fischers have for more than 20 years sold and repaired such machines at their five-person shop, the Bob Fischer Company, in Camden.

About five years ago, as they observed the shortcomings of the aerial units they were selling and servicing, they decided to come up with something better. After spending $500,000 or so, they appear to have done just that.

The Fischers sought help from many quarters. Bob, Sr., says, "We go to the Thomas Registry [a directory of corporations] any time we don't know an answer, and look up somebody that's in some business that we think [would have the answer], and call up the engineering department." By talking with Struthers-Dunn, Inc., of Pitman, N.J., for example, the Fischers came up with electrical relays that permit smooth, quick braking of the bucket atop the aerial ladder—an important feature, since the worker in the bucket may be slammed into a utility pole if the bucket keeps moving.

The Economan's wiring is modular and "self-diagnosing"; each module has a light that goes out if the module is not working properly, which makes repairs simpler. The Economan is made of aluminum, and so it is light enough—750 pounds—to fit on a 3/4-ton van, without any special supports inside the truck.

PHOTO: MICHAEL MALLY

From their brightly painted shop in Camden, N.J., Bob Fischer, Sr., and his son, Bob, Jr., are spreading the word about their aerial ladder.

The first unit was tested, and later bought, by Service Electric Cable TV in Allentown, Pa. Manny Pena, who is in charge of Service Electric's trucks, says that after several years the unit has been down for repairs only once, for a few hours. Another early purchaser was a convenience-store chain in Tennessee that uses its Economan to change the lights in its parking lots.

The Fischers had already sold a dozen or so Economans (the installed price is $10,450 each) when they began their marketing push, and they see a market for 400 units a year. But they know that sales, even of a superior product, won't necessarily come easily. Many potential customers have grown accustomed to working with larger, heavier, more expensive units, which some use for construction as well as maintenance. The Economan may require a sophisticated marketing effort of the kind that only a large company can muster.

The Fischers have been approached about selling their firm to a company prepared to spill a lot of red ink backing the Economan. But they say that would rob them of the satisfaction they get from running their business in so frugal a manner that they were able to develop the Economan without having to borrow any money.

"There are two ways to run a business," says Bob, Sr. "One is to [try to] build it into the biggest thing in the world, so that in the final analysis it's worth an awful lot of money. The other way is to do it the way I've done it, and just make sure that you use your own money and your own ideas."

That way, he says, "when you go to bed at night, you don't have to worry about whether you've taken anybody under with you; if your decision's bad, it's bad on your own.

"I'm probably never going to make as much money out of this thing as if we'd gone that other way, but it's ours. It's ours. And, after all, what are you in business for? What's the real purpose of being in business? Isn't it for the freedom to do it your way?"

—Michael Barrier

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MANAGING YOUR BUSINESS

Working On Workplaces

Employers' concerns about keeping the workplace efficient and attractive offer opportunities for franchised businesses.

By Nancy Croft Baker

With the need for office workers expected to keep rising through the 1990s and with many white-collar employees spending longer hours on the job, employers are becoming more concerned about making the office environment more attractive, more efficient—and thus more productive.

To achieve those goals, many employers are turning to office-improvement services, an area that includes many franchisees.

These franchised businesses may specialize in identifying—and suggesting remedies for—inefficient and time-wasting office procedures. Or they may deal in fitness programs tailored to improve workers' health and morale. Or they may do maintenance that makes workplaces more inviting and even healthier. Office-improvement franchisors say that their services can save money for employers by stimulating productivity.

"The average sales-marketing manager spends a total of 36 minutes each workday just looking for things on his desk or in his office," says Daniel Stamp, a management consultant and franchisor. To help reduce such losses of valuable time, Stamp founded Priority Management Systems, a Dallas-based franchise. The company conducts a three-session "Time:Text" workshop that costs $350 per participant (corporations are offered volume discounts).

Stamp says that Priority Management franchisees show executives how to manage priorities, organize their offices so they can promptly locate important notes and papers, bring order and balance to their business and personal lives, monitor progress, track assignments, conduct meetings more efficiently and learn how to determine whether they and their staff members are wasting time on low-priority items.

For instance, managers spend an average of 16.5 hours a week—or 20 weeks a year—in meetings, says Stamp. His franchisees teach people how to conduct meetings effectively and how to run meetings in ways that prevent time-wasting digressions.

Don Babb, president of Foster-Dixiana Corporation, a mining and industrial-abrasive processor in Columbia, S.C., was so impressed by what he learned in Priority Management's course that he required his four senior managers to take it. Babb reports that his managers are "more focused on their daily and monthly goals, and there's no question that it has increased productivity."

Becoming more organized has also helped Babb and his managers feel more confident about their work. "We had some guys whose desks looked like a tornado had hit their offices," Babb says. "It's depressing to come to work to a messy desk—you feel like you're behind before you even sit down. Now, when people leave at night, their desks are spotless. We waste less time, and you can't believe the confidence that gives them and me when they're in control."

Also cost-effective for employers are programs to improve employee health and fitness. According to the Employee Benefits Research Institute, a Washington-based research foundation, corporations paid $97 billion for health care in 1984. Studies also show that people who are 40 percent overweight visit their doctors and miss work twice as often as those of average weight; employers pay an estimated $1,000 a year in additional health-care expenses for each overweight employee, according to some estimates.

Dinah Simonini and Norman Kravetz hope such figures will motivate employers to purchase corporate memberships at their Impulse Fitness Centers franchises. The fitness centers offer custom-designed corporate programs for keeping employees fit and alert on the job. Impulse Fitness Centers specialize in cardiovascular exercise through stationary rowing and bicycling, and in computerized electric muscle stimulation, or EMS. A regular individual membership requires a $299 initiation fee plus monthly dues of $79. Discounts apply when corporations sponsor five or more members.

By offering a corporate fitness program, employers "can increase [employees'] self-image, motivation and productivity," says Simonini. "The program increases employee morale and decreases sick time."

But being fit and efficient means little if the office environment is unpleasant and potentially harmful. That's where the cleaning/maintenance services come in, and they can be highly specialized. Ceiling Doctor International, Inc., a Toronto-based franchise, undertakes the complicated process of removing dirt and grime from ceilings.

By applying chemicals under pressure, a Ceiling Doctor franchisee can dissolve layers of dirt and eliminate static electricity that holds dirt particles. Kaaydah Schatten, founder of Ceiling Doctor, which recently started selling franchises in the United States, says her company's service saves up to 85 percent of the cost of replacement of the surfaces treated.

In seeking clients, the franchised office-improvement services maintain that using their services to make the workplace more attractive is less costly than replacing skilled workers who have been lured away by more attentive competitors. NB

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THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Require U.S. Firms To Leave South Africa?

Some opponents of South Africa's policy of racial segregation and discrimination, known as apartheid, want Congress to recall U.S. businesses operating there. Tough actions such as this by governments worldwide are vital to ending apartheid, supporters of a recall contend. But U.S. businesses in South Africa point out that the jobs, training, health care and housing they provide help nonwhites there immensely. The firms also point out that requiring them to leave would not in itself bring about political change in South Africa. Should Congress require U.S. companies to leave South Africa?

2. Act Now On Acid Rain?

Environmentalists want Congress to require facilities that burn fossil fuels to reduce substantially the emissions of substances that they link to acid rain, a phenomenon that may be damaging some bodies of water, plant life and buildings. Their opponents point out that existing laws require some emission reductions and that there is not sufficient scientific evidence to support claims that further reductions, which would cost billions of dollars, would diminish acid rain. Environmentalists say that by the time acid-rain research is complete, some damage may be irreversible. Should Congress act now on acid rain?

3. Impose Stricter Controls On Firearms?

In the wake of a growing number of violent, drug-related crimes, Congress will be asked again to regulate more strictly the purchase and ownership of firearms. Proponents believe tough gun-control measures would be effective in keeping weapons out of the hands of criminals and other unstable persons. Opponents believe controls would be ineffective because most criminals obtain weapons on the black market or in robberies. Also, opponents say strict controls could deter law-abiding citizens from exercising their constitutional right to possess firearms to protect themselves. Should Congress regulate firearms more strictly?

Verdicts On October Poll

Here is how readers responded to the questions in the October issue.

	Bush	Dukakis	Undecided
Who is more qualified to be President?	87%	9%	4%
Who will be better at reducing the deficit?	79%	12%	9%
For whom will you vote?	87%	10%	3%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

The Third World's Debt Crisis

PHOTO: STACY PICK—UNIPHOTO

The debt crisis among Third World nations during the 1980s has caused a 25 percent drop in U.S. exports to developing countries and a loss of at least 1 million U.S. jobs. Because of their need for foreign exchange, debtor developing countries have imposed trade-distorting policies, have limited their U.S. imports and generally have strained their trade ties with creditor nations.

Current U.S. policy on managing the debt crisis was set forth in October, 1985, by then-Treasury Secretary James A. Baker, III, in a broad agenda known as the "Program for Sustained Growth." This plan attempted to address the crisis through a combination of economic liberalization by debtor nations' governments, increased multilateral assistance to those nations and increased commercial lending.

However, new commercial lending has declined since the announcement of the Baker plan. Capital flows between creditor and debtor nations have actually reversed, with debtors paying more in amortization and interest than they are receiving in new lending. The 101st Congress is expected to consider legislative proposals to solve the debt crisis in the Third World.

Urge your senators and representatives and the new administration to support efforts to effect a viable multilateral approach to the debt crisis.

Unfair Competition By Nonprofits

PHOTO: JON FEINGERSH—UNIPHOTO

Commercial activities by nonprofit entities are increasing. Cutbacks in federal grants and heightened competition for private contributions have led more nonprofits to expand their services or start new businesses and to shelter profits under their nonprofit exemptions.

Most nonprofits have several competitive advantages over businesses that are structured to make profits. Nonprofits do not pay most federal, state or local taxes. They enjoy reduced postal rates. And many receive government grants and special treatment under the Social Security Act and numerous other laws and regulations.

Most of these advantages are appropriate for nonprofits that carry out traditional humanitarian tasks and that rely heavily on volunteers in providing important social and community services. However, these advantages are also enjoyed by "commercial" nonprofits, those whose competition with for-profit businesses serves no societal purposes and, in fact, harms business and economic growth.

Urge your senators and representatives to oppose nonprofits' unfair competition with business, while recognizing the legitimate and important roles played by most nonprofits.

White-Collar Crime

PHOTO: MICHAEL VENTURA—FOLIO INC

In 1970, Congress enacted the Racketeer Influenced and Corrupt Organizations (RICO) statute as part of the Organized Crime Control Act. RICO's purpose was to inhibit organized criminal activity and to protect innocent businesses from victimization by organized crime through fraud, infiltration and unfair competition.

Recently, civil RICO claims have been added to ordinary commercial lawsuits. These suits rarely have involved major allegations of commercial fraud; most have been disputes over interpretations of statutes or contracts. As a result, many respected businesses have been caught up in civil RICO litigation.

The U.S. Chamber of Commerce supports congressional efforts to redirect the RICO statute to its intended purpose of attacking organized crime. The Chamber also supports efforts to reverse the trend of using civil RICO provisions almost exclusively against legitimate businesses or in routine commercial disputes.

Urge your senators and representatives to support civil RICO reform.

COMMENTARY

Editorial

President Reagan's enduring legacy deserves the gratitude of freedom-loving people everywhere.

As The Reagan Era Ends—An Appraisal And An Appreciation

President Reagan certainly wasn't smiling when he made his first economic-policy statement to the nation nearly eight years ago. "I regret to say," the newly inaugurated Chief Executive told the American people, "that we are in the worst economic mess since the Great Depression."

And a mess it was. Back-to-back inflation rates of 13.3 percent in 1979 and 12.4 percent in 1980 represented the highest peak since World War I. Living standards eroded as higher costs outstripped pay raises. Interest rates that soared past 20 percent had crippled the housing, auto and related industries. The high cost of American goods abroad was a major barrier to full U.S. participation in the rapidly expanding global marketplace.

Shortly thereafter, the President submitted to Congress a revolutionary plan that called for reliance on the enterprise system, not on government, as the basis of a healthy economy. "Reaganomics" had four principal initiatives: tax reductions that would stimulate investment and production; spending restraint that would shrink the size of government; elimination of federal regulations that were choking business growth; and a stable monetary policy to hold inflation in check.

PHOTO: THE WHITE HOUSE

The President was proposing nothing less than the reversal of the philosophy, entrenched for a half-century, that the government should have a major role in the marketplace.

He was challenged from the outset. His tax policies would favor only the wealthy, his opponents said, while spending restraints would penalize the poor. They defended as essential even those federal regulations that resulted in higher consumer costs without achieving the purposes envisioned when the controls were adopted. And they saw nothing wrong with running the money-printing presses faster when a little economic stimulus was needed.

President Reagan prevailed, however. The verdict on his economic program is written in the six years of steady economic growth that it has produced. In those years, the nation has seen inflation and interest rates plunge, the creation of 17 million jobs, an entrepreneurial renaissance, the recovery of manufacturing industries and a boom in exports. Taxpayers in the highest brackets have paid more, not less, to the government, while those in the lowest brackets have seen their tax liabilities eliminated or sharply reduced. Key social programs have continued to grow.

As impressive as those achievements are, they are part of a larger context in which the Reagan era should be evaluated. The past eight years will be seen historically as a transition from the governmental philosophy of the 20th century to that of the 21st century.

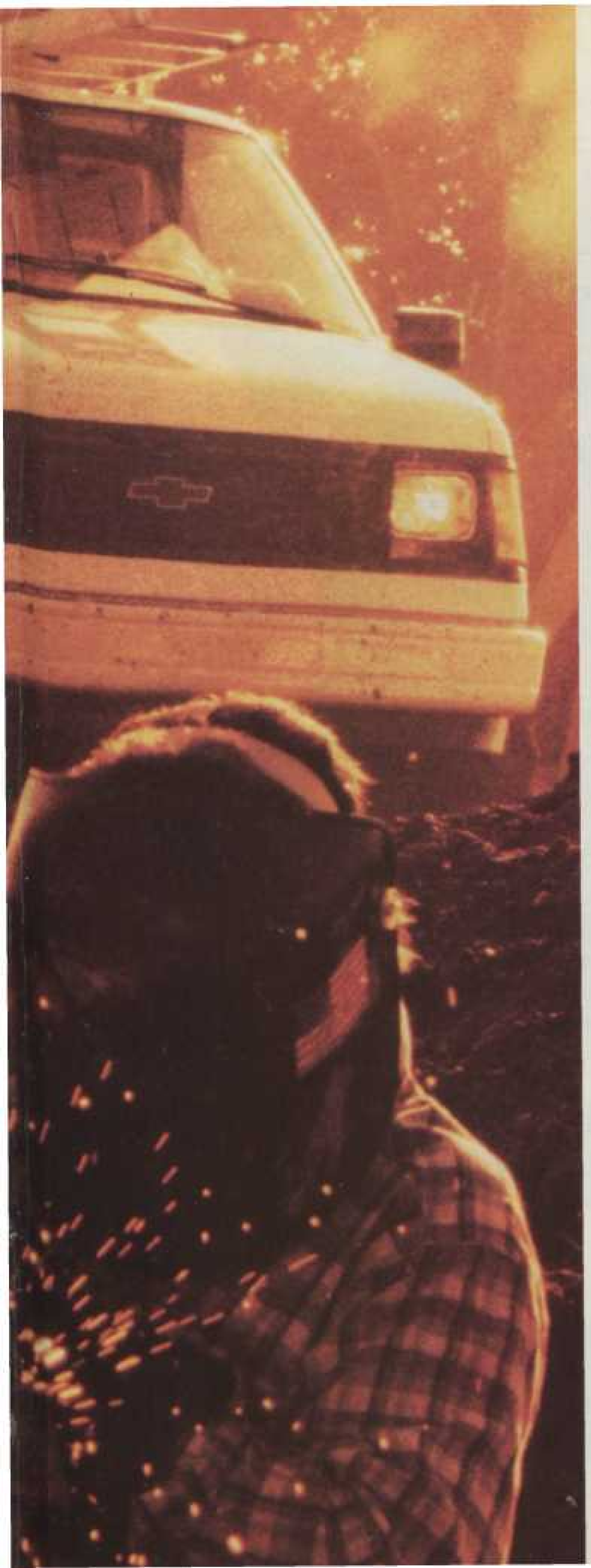
The Depression-spawned concept of government as the guarantor of economic health has given way to the age of the entrepreneur. While some resistance remains, protectionism is fading as a major issue. Americans recognize that the real challenge is to become more competitive in global markets.

Another important result of the Reagan era is the growing recognition throughout the world that market incentives succeed and government-controlled economies fail. Nations that had pursued policies ranging from socialism to outright Marxism now realize that meaningful jobs, resources, goods and services are not created by government edict but by individuals spurred by the hope of return on the time, money and effort they invest.

That doctrine has even gained acceptance, to an extent not yet apparent, in the Soviet Union and the People's Republic of China, which had been competing not so long ago to demonstrate which was more loyal to the economic gospel of Karl Marx. And, because economic and individual freedoms are inseparable, many people who have never known either might, not too far down the road, enjoy both.

President Reagan's legacy in terms of benefits to his own country and to much of the rest of the world is one that will endure long beyond his tenure in office, and it is one for which he deserves the thanks and appreciation of freedom-loving people everywhere. NB


Let's get it together... buckle up.



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